Mackenzie Financial Corporation

1998

ANNUAL

REPORT

Our Mission

Building financial independence

for individual investors

in partnership with their independent financial advisors

Pour recevoir un exemplaire en français de ce rapport,
s'adresser à la Corporation Financière Mackenzie,
à l'adresse postale indiquée sur la troisième page de couverture.

Mackenzie
Building Financial Independence

Building Financial Independence 30 Years

Corporate Profile

Performance

Based on our reputation, performance and a choice of almost 70 Mackenzie funds, more than one million investors have entrusted us to manage over $29 billion of their mutual fund investments. They confidently rely on our domestic and international portfolio management teams to protect and increase their wealth.

Leadership

Mackenzie has been Building Financial Independence for investors since 1967. Working closely with our valued partners – independent financial advisors, shareholders, mutual fund investors and our employees – we've built one of Canada's leading financial services organizations.

Service

More than 23,000 independent financial advisors have come to know, trust and recommend Mackenzie funds. So that these advisors can best serve their clients, our employees provide them with industry-leading sales support, educational programs, financial products and efficient service.

Diversification

Our Corporation operates through three significant business units:

- the Canadian Fund Operations, offering a broadly diversified range of 50 Canadian mutual funds within the Industrial, Ivy, Universal and Keystone fund families;
- the U.S. Fund operations, a U.S. mutual fund business offering 17 Ivy funds specializing in international and emerging growth markets; and
- the MRS Group of Companies conducts a diversified trust and administrative business supplying financial products and services to dealers and their client investors.

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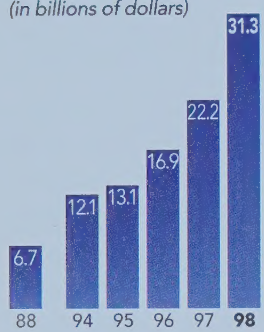
Financial Highlights

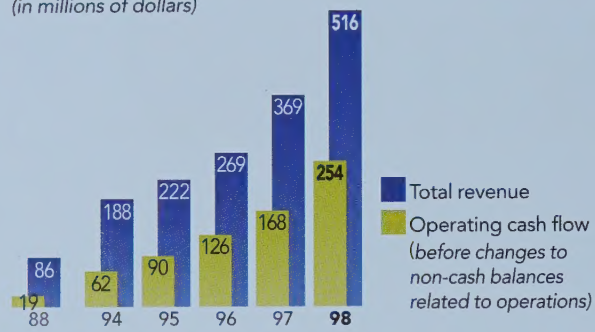
Increasing assets under management

(in billions of dollars)



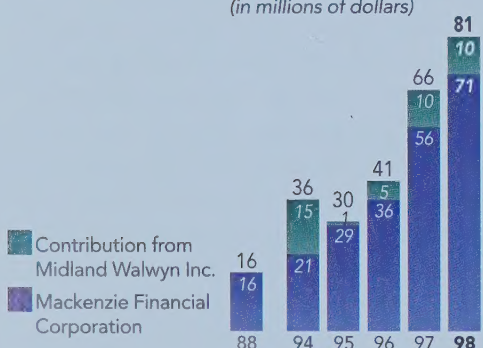
Record revenues and operating cash flows

(in millions of dollars)



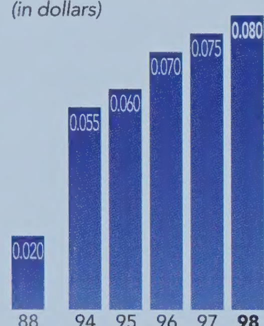
Higher net earnings

(in millions of dollars)



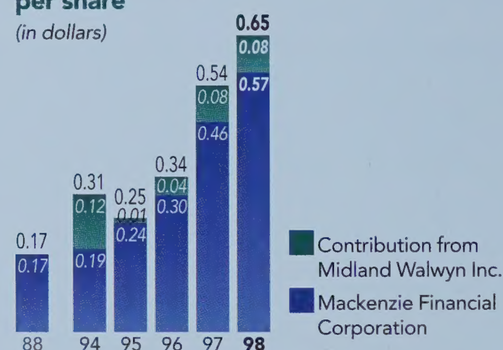
Increasing dividends

Dividends per share (in dollars)



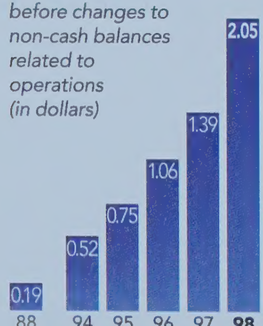
Strong earnings per share

(in dollars)



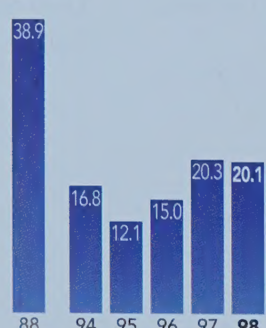
Improved cash flow per share

before changes to non-cash balances related to operations (in dollars)



Return on equity

(percent)



Building value for shareholders

Price per share at March 31 (in dollars)

Per share figures have been adjusted to reflect the November 1997 2-for-1 stock split.

Alexander Christ, Chairman and James L. Hunter, President and Chief Executive Officer

Last year, we reported record levels of assets under management, revenues and net earnings. This year, we are pleased to report that those achievements have been significantly surpassed by the results of Fiscal 1998.

Our assets under management grew by over $9 billion to $31.3 billion; our revenues increased by $147 million to more than $515 million; and our net earnings closed the year up $15.2 million to $80.7 million. Those results were well beyond our business plan projections. They reflect the dedicated efforts of all of our employees, the benefits of generally strong financial markets, and continued high acceptance of our products and services by the dealer community and investors.

Fiscal 1998 marked the 30th anniversary of the Corporation and its predecessor companies. Very few of the significant events listed under "Our History" on pages 58 and 59 seemed particularly critical to our success at the time, but each represented an additional building block in the broadly diversified financial services company which is Mackenzie today. We intend to continue adding to those blocks each year, to provide you with an even stronger, more successful company for the future.

As shareholders, you should be cautious of our ability to sustain our recent rates of growth, but confident that we can continue to grow appreciably. If we encounter a period of prolonged market weakness, our much larger asset base, healthy balance sheet and diversified revenue sources will put us in a stronger position than many of our competitors; but our rates of growth and earnings would undoubtedly be less dramatic than the past few years.

This year, we added significantly to our investment management and research teams, to our trust company operations and to the management team directing our dealer administrative services business. To ensure continuity of our long-term planning strategy, we moved some of our existing senior management into more challenging roles within our subsidiary organizations. Most significantly, the task of bringing the growth potential of all of our business units together into a consolidated financial success, has been passed to Jim Hunter as President and Chief Executive Officer. Providing a home for highly talented people of all disciplines to perform and to grow professionally will serve us well in the years ahead.

On behalf of the Board of Directors and the more than 1,000 employees throughout our organization, we again thank you for your continuing support.

Alexander Christ

ALEXANDER CHRIST
Chairman

James L Hunter

JAMES L. HUNTER
President and Chief Executive Officer

Mackenzie Financial Services Inc.

Mackenzie
Building Financial Independence

CANADIAN MUTUAL FUND BUSINESS

Fiscal 1998 was another record year for our Canadian Mutual Fund business. Fund assets, net sales and our contribution to corporate earnings all set new highs. During the year, fund investors were rewarded with $3.4 billion in investment gains which, along with new contributions, resulted in an additional $7.0 billion in mutual fund assets under administration for the benefit of Mackenzie shareholders.

We worked hard to strengthen our brand franchises with a number of new initiatives. For example, Mackenzie University, a continuing education program for financial advisors, attracted more than 8,000 participants across the country. In addition, our investments in technology such as Interactive Voice Response and the Internet are helping us to lower costs to the customer, while improving service. We also added three new funds to our Universal brand – Universal World Real Estate Fund, Universal World High Yield Fund, and Universal World Value Fund.

Despite service expansion and improvement, operating expenses for our funds decreased by 6.4% or 2.4 basis points – a further improvement over the declines reported in previous years.

PHIL CUNNINGHAM
President and Chief Executive Officer

Mackenzie Investment Management Inc.

Ivy Mackenzie
IVY FUNDS® A Growing Global Force

U.S. MUTUAL FUND BUSINESS

We ended our first full year as a public company with a record fund asset base and earnings. Investors who participated in the initial public offering have been well rewarded.

In April 1997 we closed our highly acclaimed Ivy International Fund to new investors and successfully launched Ivy International Fund II. We continue to build the credible performance record of the international funds we distribute in the U.S. and manage for the Corporation's mutual fund unitholders. We are also enhancing our fund management capabilities in U.S. equities to broaden our asset base.

In addition to launching two new funds in the U.S., we were appointed investment manager for two of the Corporation's new funds in Canada. Looking ahead, we are working to further expand our U.S.-sold product line to take advantage of asset allocation expertise garnered from participating in the Corporation's Canadian-based STAR and KEYSTONE programs.

MICHAEL LANDRY
President and Chief Executive Officer

M.R.S. Trust Company and Multiple Retirement Services Inc.

M R S

TRUST AND ADMINISTRATIVE BUSINESSES

During the year we continued to invest to broaden the MRS Group of Companies' ("MRS") products and services. We incorporated a new subsidiary, M.R.S. Securities Services Inc., which became a member of the Investment Dealers Association (IDA) to facilitate service to other IDA members or self-regulatory organization members. We now offer a limited range of non-registered account services for investment accounts to our dealers and their investors. During the year, our Keystone Funds were launched in concert with several industry participants. These funds and other new products will continue to improve our dealers' ability to compete with larger financial institutions. Our dealer-based Mortgage Referral and RRSP Loan programs have also been well received and a broader loan product offering is being prepared. Late in the year, we relocated the entire MRS organization to a new state-of-the-art facility at College Park in Toronto to accommodate our growth.

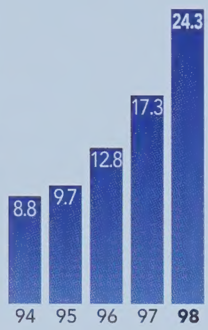
Fiscal 1999 will be another year for substantial investment in product and service initiatives. However, increasingly new product launches should start to contribute in a robust way to the return on the investments we are making. Most important, external surveys of our dealers are showing continued improvement in satisfaction with the entire range of MRS-delivered products and services.

LAURIE MUNRO
Group President

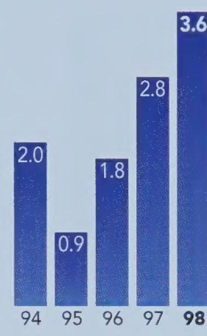
Senior Executives:
Standing, L to R: Andrew Dalglish, Phil Cunningham, David Feather
Seated, L to R: Ann Savege, Mark Tiffin

Financial Summary – Canadian Mutual Fund Business

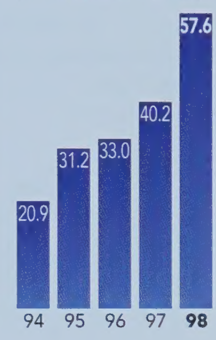
Fund assets
(in billions of dollars)



Net sales
(in billions of dollars)



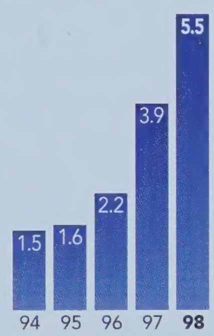
Contribution to corporate earnings
(in millions of dollars)



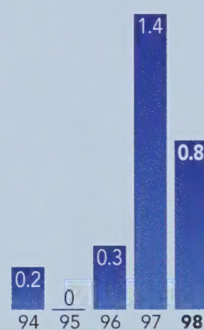
Senior Executives:
Standing, L to R: James Broadfoot, Michael Landry, William Ferris
Seated, L to R: Barbara Trebbi, Keith Carlson

Financial Summary – U.S. Mutual Fund Business

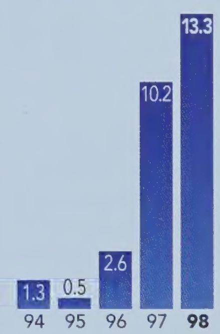
Fund assets
(in billions of Cdn. dollars)



Net sales
(in billions of Cdn. dollars)



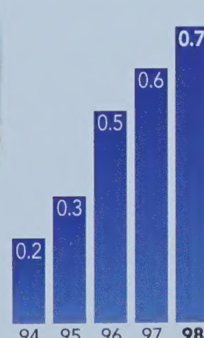
Contribution to corporate earnings
(in millions of Cdn. dollars)



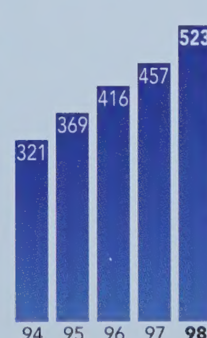
Senior Executives:
L to R: Allan Warren, Scott Sinclair, Theresa Currie, Laurie Munro

Financial Summary – Trust and Administrative Business

Mortgages and consumer loans
(in billions of dollars)



Number of RRSP accounts
(in thousands)



Contribution to corporate earnings
(in millions of dollars)

The year in review and a look to the future

A YEAR OF POSITIVE RESULTS FOR OUR SHAREHOLDERS

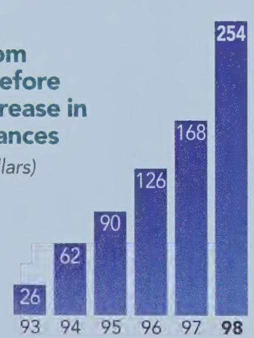
Consolidated net earnings
(in millions of dollars)

In the past year, our consolidated net earnings rose to an all time high of $80.7 million.

5 Year stock price comparison
(in dollars as at March 31)

The Corporation's common shares began the year at $20.25. On November 10, 1997 they were split 2-for-1 and closed the year at $20.00, up almost 100% for the year.

Cash flow from operations before increase/decrease in non-cash balances
(in millions of dollars)



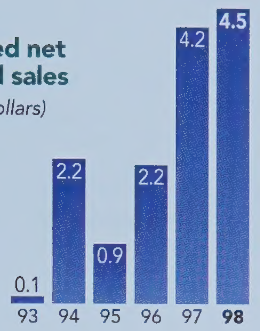
Cash flow from operating activities reached $254 million before changes in non-cash balances related to operations, an increase of $86 million from the previous year.

Imagine A Caring Company

And, we have proudly maintained our status as an Imagine Corporation receiving recognition from the industry for our long term community and charitable work.

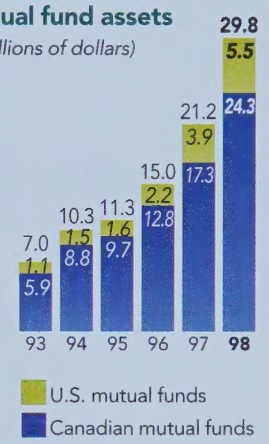
OUR MAJOR ACCOMPLISHMENTS IN FISCAL '98

Consolidated net mutual fund sales
(in billions of dollars)

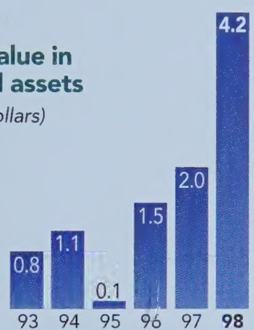


Net sales (total new sales less redemptions) of our Canadian and U.S. mutual funds reached a record $4.5 billion in fiscal '98. Total mutual fund assets of our Canadian and U.S. mutual funds grew from $21.2 billion to $29.8 billion.

Canadian and U.S. mutual fund assets
(in billions of dollars)

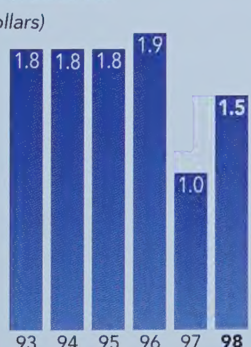


Increased value in mutual fund assets
(in billions of dollars)



Over the past year, we provided our fund investors with a $4.2 billion increase in the value of their mutual fund investments.

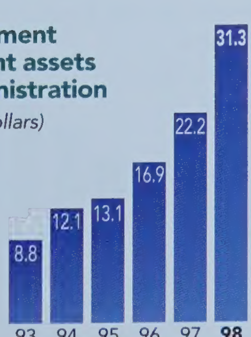
Assets under administration – institutional accounts
(in billions of dollars)



Our private and institutional accounts business increased by 54% from $1.0 billion at March 31, 1997 to $1.5 billion at March 31, 1998, through a combination of new accounts, new sales and market appreciation. Investment advisory services to segregated funds, a component of our institutional account business, started the year with $270 million in assets and ended with $803 million. Growing this business segment in the years ahead is a major new opportunity for the Corporation.

Assets under administration – segregated funds
(in millions of dollars)

Total investment management assets under administration
(in billions of dollars)



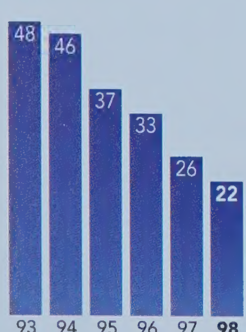
Total investment management assets increased by $9.1 billion or 41% during the year.

Multiple Retirement Services Inc. launched "The Keystone Funds" – a new family of funds offering an asset allocation program combining our own investment advisory services with the services of other industry leading investment management companies: AGF, BPI, Beutel Goodman, Saxon Mutual Funds, Sceptre Investment Counsel and Spectrum United Mutual Funds.

M.R.S. Trust launched a mortgage referral program in eight provinces for the independent dealers who distribute Mackenzie funds, and is currently seeking approvals to expand the program to other provinces.

In response to dealer and investor demand, we continued to expand our product line-up. Mackenzie launched three new mutual funds in Canada, Mackenzie Investment Management Inc. launched two in the United States and MRS launched ten in the KEYSTONE program.

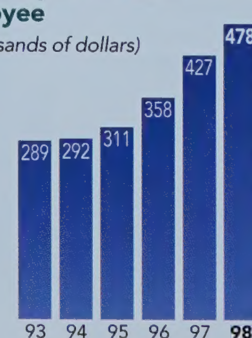
General and administrative expenses per dollar of revenue
(percentage)



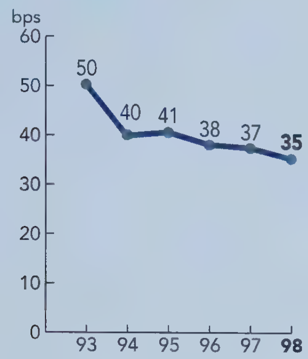
Our management team continued its commitment to improved productivity:

- general and administrative expenses per dollar of revenue declined by 14.7%.
- revenue per full time employee increased by $51,000 to $478,000.

Revenue per full time employee
(in thousands of dollars)



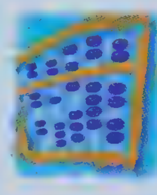
Fund operating expense ratio history



Note: All measurement points are as of June 30 and audited at the fund level except the end point which is at March 31, 1998 and unaudited. The Funds' fiscal year end is June 30 each year.

Operating expense ratios of our funds continue to decline. This reflects a management focus of making our products even more attractive to investors. The operating expense ratios have declined by almost 15 basis points, or 30.3% since June 30, 1993.

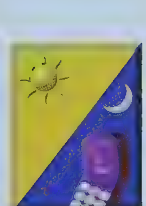
We have also been improving our service levels to dealers and fund investors, maintaining a solid first quartile ranking for service in the fund industry, as measured by Dalbar Inc.



Our Internet sites for dealers and investors have been highly successful. We have won several awards and recognition for creativity and content and were rated as the best in our industry by the dealer community. This technology has broad future application for dealers and for our investors – from delivering information, to transaction processing. The Internet will be a major initiative for all of our businesses in the years ahead.

http://advisor.mackenziefinancial.com

http://www.mackenziefinancial.com



Our interactive voice response service now processes approximately 50,000 telephone calls a month for Mackenzie Access Line fund prices, account inquiry and various other services. Mackenzie Access Line has also been rated by dealers as the most useful in the industry.

We significantly expanded our industry-leading commitment to dealer education. We ran two Mackenzie University programs providing educational sessions to over 8,000 independent financial advisors in cities across Canada.

Our fund management expertise, when combined with our five external investment management partners, now spans the globe.

Mackenzie Financial Corporation
Calgary, Montreal, Toronto, Vancouver

Mackenzie Investment Management Inc.
Boca Raton, Ft. Lauderdale, Prague, Shanghai

OUR STRATEGIC PARTNERS

Bluewater Investment Management Inc.
Toronto

Cursitor-Eaton Asset Management Company
Boston, London, Paris

Garmaise Investment Technologies
Toronto

Henderson Investors Limited
London, Singapore, Tokyo

Thornton Investment Advisors Limited
Hong Kong, San Francisco, Singapore, Sydney, Taipei, Tokyo

With the assistance of our corporate finance advisors, we developed the industry's first income trust with a fixed preferential distribution, and a P2 credit rating. This investment vehicle will finance selling commissions for our growing fund sales. Mackenzie Income Trust raised approximately $200 million on April 6, 1998.

We view each of the foregoing as significant accomplishments in a very competitive mutual fund industry. But we are also committed to implementing the necessary technology, practices and products to continue our record of profitable growth. Our current foundation will be an advantage in pursuing that future success.

A LOOK TO THE FUTURE

We have compelling reasons to further develop our investment in the financial services business. Our view of the road ahead includes:

OPPORTUNITY

- Estimates show individual Canadian investment assets growing to approximately $2 trillion by the end of the year 2002. By maintaining our current market share of the Canadian mutual fund market, we could exceed $50 billion in managed assets by March 2003. We are making further commitments to our marketing programs and our range of products and services with the aim of increasing our share of this growing market.
- Over the next ten to twelve years, baby boomers will realize an intergenerational transfer of wealth that will be more significant than at any time over the past two hundred years. Baby boomers who are accumulating significant wealth may graduate from mutual funds to more flexible alternative products, such as mass customization of portfolio management services, which are increasingly being made more affordable by changes in technology. We are committed to developing the appropriate product line extensions to retain those mutual fund "graduates" as clients. As investor assets grow, so does the value of advice. We are committed to the role that independent advisors play in adding value to the products we offer.

REGULATION

- Continued pressure from de-regulation, re-regulation and low barriers to entry will encourage new competitors to enter the North American mutual fund business.

GLOBALIZATION AND COMPETITION

- Our key competitors are now global scale: the largest U.S. multinational fund companies, banks and insurance companies.
- Globalization of capital markets continues to pressure firms into leading-edge business conduct in local markets and as they expand internationally. Increasing globalization is both a threat and an opportunity:
  - — The Canadian and U.S. Fund industries set the standard for best global industry practices.
  - — Global investment management competence is a competitive advantage and is given a market premium in local markets.
  - — Investor cross-border diversification is a continuing powerful investment theme which our funds have targeted over the past five years or so.
  - — Parts of our business are mobile and can be moved internationally to achieve significant cost and service advantages.
- The powerful presence of Canadian banks in the mutual fund industry and their ownership of the country's largest brokerage firms remain both a competitive concern and an opportunity.
- The ability to raise capital is increasingly important to fund technology enhancement, selling commissions and support service levels.

TECHNOLOGY

- The effective use of technology will continue to be a competitive advantage and will be imperative for survival in periods when investment markets are not experiencing their recent growth.
- The impact of technology is helping to break down financial services oligopolies in Canada and globally by eliminating barriers to entry to the cornerstone of bank services: real-time cash and transaction processing.

DISTRIBUTION

- In Canada, some distributors have started consolidating their operations to pursue economies of scale, to create their own proprietary funds and to develop systems that comply with regulatory change.
- Our distribution partners face several future threats: the financial and administrative challenge of larger, better capitalized competition through the consolidation process, as well as self regulation and capital standards which will be significantly higher than at present. We will continue to play a leading role by making available the assistance and advice of senior staff members to ensure our dealers have an involvement in self regulation, and are otherwise equipped to accommodate these changes. MRS will play a role in further supporting the operations areas of independent dealer firms.

OUR BUSINESS OBJECTIVES

Management has been reshaping the Corporation over the past five years to a set of changing circumstances. We now look ahead to 2003 with a set of informed goals and ambitious but realistic plans, which include:

- continuing the pursuit of excellence in all aspects of our business, as measured by investment performance, productivity measures, quality of service, record of technological innovation and record of innovation in the development of financial products. These are the cornerstones on which brand equity is built.
- maintaining our leadership in serving the needs of Canada's independent dealers and their investors.
- achieving growth in net new assets under administration of 15 – 20% per year while maintaining real returns on equity in excess of 15%.
- increasing our 7.5% share of the Canadian mutual fund market by focusing on the independent advice distribution channel.

- developing the global management and distribution of our products further to take advantage of international economies of scale in investment expertise, taxation and potentially in electronic distribution and administration.
- achieving double digit growth in assets under administration and market share in the U.S. mutual fund market.
- sourcing assets under administration from European and Asian investors.
- maintaining our position as a respected issuer of publicly traded securities in Canada and increasingly in the U.S. to enable us to prudently finance our anticipated growth.
- positioning our capability to service and administer our clients' needs on a global basis.
- continuing to diversify our revenue sources to reduce our risk in periods of prolonged market weakness.

CONCLUSION

For all of these achievements, and as we strive towards our goals in the years ahead, we are reliant on and thankful for our relationships, with our employees, with the independent dealers and financial advisors who distribute our products and with our strategic partners.

To compete effectively in the coming years, we will continue to stress our fundamental strategies:

- providing our fund investors with superior, long-term investment performance from Canadian and international fund investments;
- rewarding our own shareholders with above-average returns on their investment;
- challenging our employees to constantly improve our products and services;
- keeping pace with global standards by investing in world class products, services and technology; and
- fostering a culture of trust and integrity within our shareholders, our fund investors, those with whom we do business, and our own employees.

James L Hunter

JAMES L. HUNTER
President and Chief Executive Officer

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Executive Committee:
L to R: Alexander Christ, Phil Cunningham, Harold Hands, Neil Lovatt and James Hunter. The five officers shown, plus Michael Landry as President and Chief Executive Officer of Mackenzie Investment Management Inc., comprise the Corporation's Executive Committee.

This section of the Annual Report provides management's discussion and analysis of financial condition and results of operations of the Corporation for the years ended March 31, 1998, 1997 and 1996. This analysis should be read in conjunction with the audited consolidated financial statements of the Corporation and the accompanying notes. All amounts reported are in Canadian dollars, unless otherwise stated.

Summary of Operating Results

NET EARNINGS AND EARNINGS PER SHARE

In fiscal 1998, the Corporation reported its highest historical net earnings, $80.7 million, an increase of $15.2 million (23.2%) from $65.5 million in fiscal 1997 (1996 – $40.7 million). Earnings per share rose to $0.65 from $0.54 per share for fiscal 1997 (1996 – $0.34). The earnings per share amounts have been adjusted retroactively to reflect a 2-for-1 stock split on the record date of November 10, 1997.

The increase in net earnings was primarily attributable to the Canadian mutual fund operations. Mutual fund assets increased by $7.0 billion (40.9%) to $24.3 billion from $17.3 billion as at March 31, 1997 (1996 – $12.8 billion), exceeding the 38.0% mutual fund asset growth reported by the Investment Funds Institute of Canada.

Fiscal 1997 net earnings included $3.1 million attributable to the dilution gain from the issue of Mackenzie Investment Management Inc. ("Mackenzie Investment") shares in December 1996. The dilution gain increased fiscal 1997 earnings per share by approximately $0.03.

Continued growth in Mackenzie Investment mutual fund assets to $5.5 billion as at March 31, 1998 from $3.9 billion as at March 31, 1997 (1996 – $2.2 billion) enhanced revenues and net earnings. Mackenzie Investment reported net earnings of $13.3 million, an increase of $3.1 million from $10.2 million reported in fiscal 1997 (1996 – $2.6 million). In fiscal 1998, Mackenzie Investment was required to record a tax provision of $8.4 million for the first time in the three-year period under review because it fully utilized all losses carried forward from prior years which did not arise from timing differences. This provision reduced earnings per share by approximately $0.07.

The minority interest share of Mackenzie Investment net earnings further reduced the reported net earnings by $1.9 million (1997 – $0.5 million; 1996 – NIL) representing net earnings applicable to the 15% of Mackenzie Investment shares not owned by the Corporation.

The MRS Group of Companies reported slightly lower net earnings of $3.2 million as compared to $3.7 million in fiscal 1997 (1996 – $0.8 million). Decreased profitability is a result of higher personnel costs and marketing expenses associated with the launch of the KEYSTONE asset allocation program in January 1998.

The share of Midland Walwyn earnings, reported as equity in earnings of affiliated company, contributed $10.2 million to net earnings as compared to $9.9 million in fiscal 1997 (1996 – $5.2 million). The contribution to earnings per share was $0.08 unchanged from the $0.08 per share reported in fiscal 1997 (1996 – $0.04 per share).

REVENUE

Total revenue for the year ended March 31, 1998 was \$515.5 million, an increase of \$146.2 (39.5%) from \$369.3 million reported for the previous year (1996 – \$269.4). The increase in revenue is primarily attributable to the growth in mutual funds assets under management in Canada and in the U.S.

EXPENSES

Total expenses were \$378.6 million, an increase of \$104.7 (38.1%) from \$273.9 million incurred during the previous fiscal year (1996 – \$202.9 million). Key contributors to the increase in expenses were:

- increased general and administrative expenses due to the higher personnel costs and systems enhancements;
- higher trail commissions to dealers and investment advisory fees paid to sub-advisors, a result of the growth in mutual fund assets under administration and increasing investor preference for equity mutual funds with higher trail commissions; and
- higher amortization of deferred selling commissions, a result of increasing mutual fund sales on a deferred sales charge basis and the decision in fiscal 1994 to fund the payment of selling commissions internally.

RETURN ON EQUITY

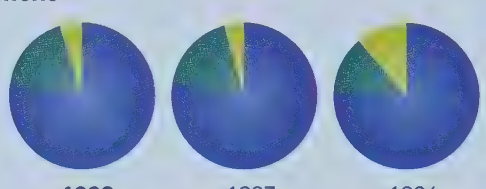
The return on average shareholders' equity was 20.1% as compared to 20.3% last year and 15% for fiscal 1996. The higher return on equity reported for fiscal 1997 was attributable to the dilution gain arising from the sale of Mackenzie Investment shares.

Principal Business Activities

CANADIAN FUND OPERATIONS

The Corporation's core business activity is the provision of management services to public mutual funds in Canada. We provide directly, or contract for, all investment management, marketing and administration services required by the funds. As at March 31, 1998 we offered a total of 50 mutual funds to investors in Canada, comprising the Industrial, Ivy, Universal and Keystone fund families. As of that date, the combined assets in the four fund families totalled $24.3 billion and represented 77.5% of the Corporation's managed asset base of $31.3 billion (1997 – $22.2 billion; 1996 – $16.9 billion). Our share of total mutual fund assets as reported by the Investment Funds Institute of Canada increased to 7.5% from 7.4% as at March 31, 1997 (1996 – 7.8%).

Chart 1 **Assets under management**
As at March 31



	1998	1997	1996
Canadian mutual fund assets	**77.5%**	77.8%	76.0%
U.S. mutual fund assets	**17.7%**	17.8%	12.7%
Private & institutional accounts	**4.8%**	4.4%	11.3%
	100.0%	100.0%	100.0%

Canadian Fund Operations remain the Corporation's major source of revenue: management fees charged to the funds range from 0.5% per year for money market funds, up to 2.0% per year for equity funds. Certain additional operating expenses incurred in the operation of the funds are reimbursed and reported as a reduction of the related expenses. The Corporation also earns administration revenue from its STAR and KEYSTONE strategic asset allocation programs. Management and administration fees from Canadian Fund Operations, net of the payment of distribution fees to Mackenzie Master Limited Partnership, represented the highest component and growth area, at 69.3% of revenue, as described in Table 6.

The three principal components of the management services are:

- portfolio investment management for the funds;
- distribution services to promote the sale of the funds' securities to the public through independent financial services companies; and
- administrative services, including transfer agency, fund and trust accounting, financial reporting and regulatory compliance.

INVESTMENT MANAGEMENT

The importance of performance

Fund performance is a critical factor in achieving long-term growth in assets under administration. Strong investment performance adds assets in the current period through market appreciation and generally contributes to greater new fund sales in later periods. Our in-house investment management team has built a strong long-term performance record for the funds.

During the year, fund performance accounted for $3.4 billion of the $7.0 billion growth in Canadian mutual fund assets as compared to $1.6 billion for the year ended March 31, 1997 (1996 – $1.2 billion). New fund sales increased to $7.2 billion from $5.3 billion in fiscal 1997 (1996 – $3.9 billion).

Table 1 Mutual fund asset growth – Canada
(in millions of dollars)

Year ended March 31	**1998**	% Change	1997	% Change	1996
Opening Assets	**$ 17,240**	34	$ 12,836	32	$ 9,744
Gross Sales	**7,180**	36	5,263	36	3,866
Redemptions	**3,544**	44	2,465	22	2,017
Net Sales	**3,636**	30	2,798	51	1,849
Market Appreciation [1]	**3,414**	113	1,606	29	1,243
Increase in Assets	**7,050**	60	4,404	42	3,092
Closing Assets	**$ 24,290**	41	$ 17,240	34	$ 12,836

[1] *Includes reinvested distributions*

An expanding investment management team

In our 1997 Annual Report, we indicated that Mackenzie had added three in-house portfolio managers and six research analysts during the past three years. During fiscal 1998, a further three investment managers were added to the in-house investment management team.

In addition to the portfolio managers and research analysts employed by Mackenzie, we have also engaged prominent domestic and international sub-advisors as our external investment management partners to provide geographic and specialized investment services for eleven funds within the Universal fund family. During the year we launched "The Keystone Funds", a new family of ten funds, offered as the KEYSTONE asset allocation program in combination with selected Industrial, Ivy and Universal funds. The KEYSTONE launch, initially limited to the asset allocation program only, combines our internal investment services with the services of six other independent investment management companies; AGF Funds Inc., BPI Capital Management Corporation, Beutel, Goodman and Company Limited, Howson Tattersall Investment Counsel Ltd.,Sceptre Investment Counsel Limited, and Spectrum United Mutual Funds Inc. Funds which receive their investment management expertise are listed on page 64 of this Annual Report. Mackenzie Investment is the principal sub-advisor, providing investment management services to eight Universal funds with over $1.8 billion of Canadian fund assets. Mackenzie's current line-up of mutual funds offers Canadian investors one of the broadest ranges of investment management by asset class, by geographical location of investments, by currency and by stock selection process. We regard our current fund line-up as a significant advantage over many of our competitors.

New asset allocation strategies

The breadth of the product line-up has also been a major strength for Mackenzie through the launches of its STAR and KEYSTONE strategic asset allocation programs. These programs enable Mackenzie to combine seven different funds, with different asset classes, management styles and geographic focus, into each of 17 portfolios within STAR and five portfolios within KEYSTONE. Each portfolio is designed to provide a Canadian investor with consistent performance along with a level of risk suitable to the investor. The STAR program, currently Canada's most successful asset allocation program, has surpassed $2.7 billion in assets from its launch in January 1995. The KEYSTONE program, launched in January 1998, had $32 million in assets under administration as at March 31, 1998.

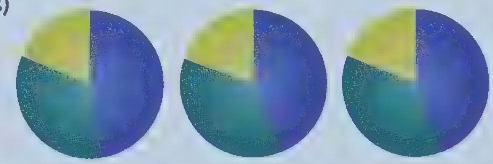
Continued fund performance and expansion of the investment management team remain one of our key strategies going forward to ensure that Mackenzie maintains a significant competitive advantage into the future.

DISTRIBUTION SERVICES

Independent dealers are the largest distribution channel

Over the years, Mackenzie has consistently directed its marketing efforts to support independent professionals who provide investment advice to buyers and potential buyers of our funds. This strategy continues to be sound, as the market share of financial advisors continues to grow (see chart 2). Quantitative research and qualitative anecdotal evidence clearly show that investors' need for advice is increasing – particularly as their assets expand through growth or inheritance and in periods of lower market growth and higher volatility.

Chart 2 Market share by distribution channel (assets)
As at March 31



	1998	1997	1996
Independent dealers	**47.5%**	44.1%	44.7%
Direct to public	**18.4%**	19.2%	18.8%
Banks + financial institutions	**34.1%**	36.7%	36.5%
	100.0%	100.0%	100.0%

As a result, the emphasis of our marketing and sales program is on increasing awareness and knowledge among financial advisors, using two basic methods:

- Up-to-date information about Mackenzie-managed funds, delivered in person by a highly qualified sales force – or by mail, Internet sites, and interactive voice response.
- Education programs, including Mackenzie University. Two additional semesters of this well-received program were provided during the year. In addition, an on-line version is being developed to meet the needs of professionals who cannot attend in person. Both programs earn participants continuing education credits from two industry associations, The Canadian Association of Financial Planners and the Canadian Association of Insurance and Financial Advisors.

Distribution channels are blurring

The trend toward overlap between channels of distribution continues. Increasingly, financial advisors are multiple-licensed to provide access to securities and insurance as well as mutual funds.

At the same time, traditional no-load, no-advice channels are beginning to offer a wider range of products, including asset allocation programs based on questionnaires and mutual funds from outside sources, such as Mackenzie, as a means of attracting new types of investors. In general, these investors tend to have lower net worth and varying needs for – and definitions of – advice. However, on the strength of success, many "graduate" to become full-service clients served by other segments of the institution or by outside financial advisors.

While new channels are growing more rapidly from a smaller base, Mackenzie expects the advice channel to continue representing the largest source of growth in assets under administration.

Brand: a key market factor

Mackenzie's assessment is that "brand" will increasingly be a key success factor. However, our view of brand equity differs substantially from many competitors who spend considerably more on mass media advertising. Specifically, we see brand development as a longer process, one built by experience, not television exposure. To us, a superior brand is the inevitable result of more and better-designed products and services which meet the real needs of investors; higher levels of personal service from Mackenzie and financial advisors who independently represent our products; broad distribution to assure ease and convenience of finding Mackenzie-managed funds; and strong awareness, the result of precisely targeted communication to the one-third of Canadian households that own or will likely purchase funds. All of this demands that we have knowledgeable, motivated people in all areas of the Corporation, supported by the right technology.

Many answers for investors

Experience clearly shows that the key to attracting and retaining assets is the ability to provide more than one right answer for every investor. With this in mind, Mackenzie offers an unsurpassed diversity of products, including 50 mutual funds in the Industrial, Ivy, Universal and Keystone families, along with STAR, Canada's leading asset allocation program. Each of the Industrial, Ivy, and Universal families would rank in the top 20 fund companies in Canada, based on their current asset size. During the year, STAR's ongoing success led to the development of KEYSTONE, an asset allocation program combining the management skills of Mackenzie with six other companies.

As the market enters a more mature phase, it is becoming more segmented:

- by type of advice required and the distribution channel best able to provide it;
- by investor needs and portfolio size, creating needs for Mackenzie products and services ranging from "all in one" balanced funds to specialized asset management for third-party wrap accounts; and
- by account structure or investment goal, in categories such as RRSP, RESP, group plans, investment accounts and more.

Ultimately, we believe that this market segmentation will lead to change in the structure of pricing. The Canadian approach, in which fees are typically bundled together, has served investors well. However, some segments of the market, including those driven by fee-for-service and asset-based advice fees, are demanding an "unbundling" similar to that offered in the United States. Ten years experience in the U.S. has equipped us well to respond to these needs.

Dealing with change – and opportunity

Looking ahead, market factors have created three major themes which are weighted heavily in our marketing plans.

1) Performance expectations could lead to changes in demand

The possibility of an extended bear market for equities, accompanied by reduced investment returns closer to historical averages, would slow growth in assets – potentially dramatically – in the short term. However, from a mid- to-longer-term perspective, Mackenzie is well positioned to gain market share under this scenario, given that we have a wider choice of more defensive funds and asset allocation programs into which investors can switch, the likelihood that investment advisors would concentrate their efforts on behalf of the best known and best established companies, and the availability of a variety of "substitute" investment management products from The MRS Group of Companies. The latter includes a variety of segregated funds, wrap accounts, and index-linked GICs, with more to come.

2) Distribution channels are being consolidated and vertically integrated

A number of factors – from regulatory change to increased needs for capital and technology – have created pressure for consolidation within mutual fund distribution channels. This has been accompanied by increased introduction of "in-house" mutual funds as some distributors vertically integrate into manufacturing. Despite this, the number of firms and advisors working independently on behalf of Mackenzie is growing faster than at any time in the Corporation's history. This positive development, which we will continue to monitor, is a result of the entry of insurance companies and other new, major players into mutual fund distribution and expansion in the "do-it-yourself" category – discount brokers and Internet services which have embraced our products. Another encouraging trend to watch: investor demand for truly independent advice and investment products could grow, reflecting growth in fee-for-service investment advice as has developed in the U.S.

3) Market change will require flexibility and commitment

Self-regulation for independent financial advisors, new sales practice rules, demutualization of the insurance industry, mergers in the financial services industry, changes to legislation in Canada and the U.S. – each will be a catalyst for change and a source of potential short-term dislocation. However, we believe each will be fundamentally good for Mackenzie as investor trust in the industry is increased and we accelerate existing programs to take full advantage of our competitive strengths. In the final analysis, there is nothing like competition to make us better, cheaper and faster – ensuring the long term health of the Corporation.

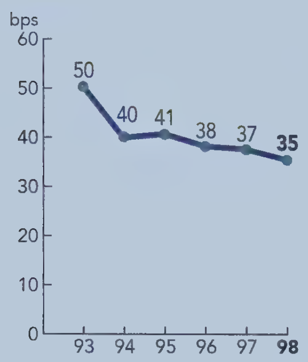
Based on third-party assessment, Mackenzie is rated as one of the best product suppliers in the mutual fund industry – with strong distribution relationships and the scale to continually improve service and reduce costs.

ADMINISTRATIVE SERVICES

Throughout our administrative operations, we continue to implement changes to improve service levels and to expand hours of availability in a cost-effective manner. This year, our customer service staff responded to over 800,000 calls. In addition, our 24-hour interactive voice response service, Mackenzie Access Line, handled 427,000 enquiries. By year-end, our two Internet sites were collectively averaging approximately 1,500 visits daily. These forms of electronic commerce allow us to improve service levels while tightly managing volume-sensitive costs.

We continue to reduce fund operating expenses by relentlessly exploring means to simplify how we process information and to better exploit and integrate our technology. We have increased the operating leverage we derive from our imaging technology by expanding our indexing and workflow processes. We constantly focus on increasing the number of "events" (single or compound transactions or enquiries) that clients (whether they are investors, representatives, their assistants, or distributor back-office personnel) can consummate electronically, without having to call us or send any paper at all.

Chart 3 Fund operating expense ratio history



Note: All measurement points are as of June 30 and audited at the fund level except the end point which is at March 31, 1998 and unaudited. The Funds' fiscal year end is June 30 each year.

U.S. FUND OPERATIONS

Mackenzie Investment ended its first full year as a public company with a record mutual fund asset base and earnings. During the fiscal year, U.S. mutual fund assets under management grew significantly from $3.9 billion to $5.5 billion. Over the same period, pre-tax earnings increased by 112.8% from $10.2 million to $21.7 million and net earnings increased by 30.7% to $13.3 million from $10.2 million for fiscal 1997. In fiscal 1998, Mackenzie Investment was required to record a tax provision of $8.4 million because it had fully utilized all losses carried forward from prior years which did not arise from timing differences.

Table 2 **Mutual fund asset growth – U.S.**
(in millions of dollars)

Year ended March 31	**1998**	% Change	1997	% Change	1996
Opening Assets	**$ 3,938**	83	$ 2,149	36	$ 1,575
Gross Sales	**1,679**	(12)	1,905	168	711
Redemptions	**832**	80	461	25	370
Net Sales	**847**	(41)	1,444	324	341
Market Appreciation [1]	**765**	122	345	48	233
Increase in Assets	**1,612**	(10)	1,789	212	574
Closing Assets	**5,550**	41	3,938	83	2,149

[1] *Includes reinvested distributions*

Mackenzie Investment and its subsidiaries provide management services to 17 funds offered solely in the U.S. market. In addition, it provides sub-advisory services to eight funds in The Universal Funds distributed by the Corporation in Canada. Mackenzie Investment pursues a niche strategy, emphasizing international and emerging growth investments. These market segments continue to offer higher profit margins and have fewer competitors. The company is headquartered in Boca Raton, Florida, with research offices in Ft. Lauderdale, Florida, Prague, Czech Republic, and Shanghai, China.

In April, 1997, Mackenzie Investment closed its highly acclaimed Ivy International Fund to new investors when the Fund reached $2 billion (U.S.) of assets. While it is closed to new investors, the Ivy International Fund remains open to current shareholders and existing pension and profit sharing plans. Fund performance and further investments from these sources boosted the Fund's assets to $2.9 billion (U.S.) by the end of the 1998 fiscal year.

In conjunction with closing the Ivy International Fund, Mackenzie Investment successfully launched Ivy International Fund II, which is already making a strong contribution to earnings. Mackenzie Investment continues to build a credible performance record in international investments for funds distributed in the United States as well as for investors in the Corporation's funds in Canada. Management also intends to broaden its U.S. fund base by adding domestic investment expertise. In the year ahead, Mackenzie Investment intends to further expand its U.S. product line to take advantage of asset allocation expertise garnered from participating in the Corporation's Canadian-based STAR and KEYSTONE asset allocation programs.

Mackenzie Investment has continued to increase distribution of its managed mutual funds through focused efforts to develop relationships with major brokerage firms, institutional brokers, financial planners and fee-based advisors. Mackenzie Investment continues targeted advertising, public relations and other marketing strategies. This approach has proven to be very effective. In a highly competitive environment, high quality client service is a critical component to building new relationships and solidifying existing ones. Mackenzie Investment continues to invest in new technology to enable our investor services representatives to provide more effective assistance to clients.

Mackenzie Investment's international focus should position the firm well for the coming years. The U.S. market has outperformed foreign markets by more than two to one since the early nineties. Historical data indicates that over time foreign market returns will at least equal those in the U.S. This suggests that we will soon see an extended period of out-performance by non-North American markets. Such a trend would be very positive for sales and growth in the Mackenzie Investment managed asset base.

THE MRS GROUP OF COMPANIES

The MRS Group of Companies includes the following three individually licensed and regulated companies working together to support the Canadian independent distributors and their financial advisor representatives:

M.R.S. Trust Company – licensed as a trust company and regulated by the Ontario Ministry of Financial Institutions;

Multiple Retirement Services Inc. – licensed as a mutual fund dealer and regulated by the Ontario Securities Commission.

M.R.S. Securities Services Inc. – licensed as an investment dealer and regulated by the Investment Dealers Association.

Importantly, many clients of the MRS Group of Companies are also clients of the Corporation. The provision of many ancillary financial services to these customers can best be done through the regulated entities included in the MRS Group of Companies.

A brief explanation of the nature, scope and strategic role of each company is described below.

M.R.S. TRUST COMPANY

M.R.S. Trust provides fiduciary services by acting as trustee for the registered retirement savings plans, registered retirement income funds, group retirement savings plans, pension plans and registered education savings plans of Mackenzie and Multiple Retirement Services.

Since fiscal 1995, M.R.S. Trust has also provided RRSP contribution loans. During the past year, more than 12 thousand loans were funded totalling $85 million, of which more than 50% were invested in mutual funds of the Corporation and Multiple Retirement Services. Fiscal 1998 also saw over 30% of loan applications being made via the Internet, an increasingly popular and efficient medium. During fiscal 1999, management plans to broaden the lending program to include loans for investment accounts and expand Internet lending capabilities made available through financial advisors.

M.R.S. Trust also provides a wide range of retail mortgage products and services. As a way of broadening the scope of its mortgage origination network, in fiscal 1998, M.R.S. Trust introduced a mortgage referral program that sources residential mortgages from the same financial advisors who sell the Corporation's mutual funds. The program is strengthening the investor's relationship with the financial advisor by reducing the need to visit other competitive financial institutions.

Increasingly, M.R.S. Trust finances its lending activity through securitization and other off-balance sheet financing structures such as Mackenzie's Ivy Mortgage Fund.

One of the more significant risks that M.R.S. Trust is exposed to is the default risk associated with its conventional mortgage portfolio. In order to effectively manage and mitigate this risk, M.R.S. Trust continues to place much emphasis on improving the overall quality of its loan portfolio. Over the past five years M.R.S. Trust has focused its mortgage lending activities on CMHC insured mortgages, resulting in an increase of this component as a percent of the total mortgage portfolio to 70.8% as at March 31, 1998 from 24.6% as at March 31, 1993. During this same period, M.R.S. Trust reduced its conventional commercial mortgage lending activities which resulted in this component, as a percent of the total mortgage portfolio, decreasing to 11.8% from 20.6% as at March 31, 1993. M.R.S. Trust continues to participate in commercial mortgage lending on a selective basis.

Table 3 M.R.S. Trust loan statistics
(in thousands of dollars)

as at March 31	**1998**	1997	1996
Loans – On-Balance Sheet			
RRSP consumer loans	**$ 61,771**	$ 55,986	$ 28,602
CMHC insured mortgages	**104,149**	115,242	135,074
Conventional residential mortgages	**24,703**	30,524	40,672
Conventional commercial mortgages	**15,079**	19,329	26,522
	205,702	221,081	230,870
Allowance for credit losses	**(3,410)**	(3,286)	(6,140)
	$ 202,292	$ 217,795	$ 224,730
Loans – Off-Balance Sheet			
Mortgage-backed securities	**$ 212,786**	$ 198,244	$ 161,859
Ivy Mortgage Fund	**233,977**	159,267	71,535
RRSP consumer loans	**58,329**	33,375	—
CMHC insured floating rate mortgages	**14,385**	—	—
	$ 519,477	$ 390,886	$ 233,394
Total	**$ 721,769**	$ 608,681	$ 458,124
Loan Arrears (over 60 days)			
Consumer loans	0.04%	0.20%	0.04%
CMHC Insured mortgages	2.36%	1.54%	1.38%
Conventional residential mortgages	4.46%	3.95%	4.30%
Conventional commercial mortgages	5.27%	7.74%	22.71%
Allowance For Credit Losses			
Balance beginning of year	**$ 3,286**	$ 6,140	$ 4,207
Provision for credit losses	**1,167**	2,075	3,025
Write-offs	**(1,969)**	(5,070)	(1,130)
Recoveries	**926**	141	38
Balance at end of year	**$ 3,410**	$ 3,286	$ 6,140
Consisting of:			
Specific Provisions	**$ 482**	$ 1,308	$ 4,999
General Provisions	**2,928**	1,978	1,141
	$ 3,410	$ 3,286	$ 6,140

M.R.S. Trust also continues to aggressively manage its mortgage arrears, which has resulted in a significant reduction in the non-performing conventional commercial mortgages over the past five years. Credit risk policies and procedures were also developed and implemented to improve the quality of lending activities and to assist management with the timely identification of potential arrears problems. During fiscal 1998, M.R.S. Trust's general loan loss provision has been increased from $2.0 million to $2.9 million primarily through recoveries realized on mortgages that were provided for fully in previous periods. Management believes that the allowance for credit losses at March 31, 1998 (Table 3) is sufficient to absorb known and future losses in the RRSP loan and mortgage portfolios.

MULTIPLE RETIREMENT SERVICES INC.

Multiple Retirement Services provides complete account services including trade execution and trade settlement services, record keeping services, client and regulatory reporting for the independent distributors and their financial advisors. Through a Multiple Retirement Services account, investors have access to over 1,800 mutual funds and a wide range of other investment products. At fiscal year end, Multiple Retirement Services administered over 200 thousand accounts holding in excess of $12 billion in assets, of which over $2 billion were the Corporation's mutual funds.

During fiscal 1998 two important launches occurred that strategically expanded the scope and nature of the products and services of Multiple Retirement Services:

- KEYSTONE, an innovative multi-fund family asset allocation program, was launched by Multiple Retirement Services in January 1998 and consists of five portfolios, each containing seven funds. The mutual funds in the portfolios are managed by the Corporation and six independent, recognized investment managers. The Corporation's mutual funds comprise approximately 30% of the assets within KEYSTONE.
- In March 1998, Multiple Retirement Services introduced investment account services which complement the existing registered account services. The offering of investment accounts provides a strategic platform for the launch of a wide range of future initiatives.

In order to enhance the level of service provided to financial advisors and their clients, Multiple Retirement Services anticipates offering Internet access for dealers and their financial advisors, faster and more consistent trade execution and trade settlements, and, where permitted, payouts on non-mutual-fund trades to dealers.

In fiscal 1999, management believes that Multiple Retirement Services can continue to attract and support distributors and their representatives by providing innovative products and services, alternative fee structures and the cost-effective use of new technologies.

M.R.S. SECURITIES SERVICES INC.

M.R.S. Securities Services is operated for the express purpose of providing administrative support services to Self Regulatory Organization (SRO) member investment dealers and broker/dealers. As more independent distributors seek to become SRO members, it is strategically important for the MRS Group of Companies to offer this service and also ensure that this licensing is utilized to further support mutual fund distributors and their representatives whenever possible.

Although the services offered are in their infancy, initial distributors and financial advisor response suggest that this entity's licensing will have an important role in supporting the independent financial advisor.

The MRS Group of Companies will continue to focus its resources during fiscal 1999 and beyond on creating and distributing a broad range of financial products and services designed to keep independent distributors and their financial advisor representatives fully competitive within their market place.

PRIVATE AND INSTITUTIONAL ACCOUNTS

In addition to its Canadian and U.S. Fund Operations, the Corporation provides investment management services to 29 private and institutional accounts. Assets in these accounts increased to $1.5 billion from $1.0 billion as at March 31, 1997 (1996 – $1.9 billion), through a combination of the addition of six new accounts, market appreciation and net sales to existing accounts. The decline in assets under administration in fiscal 1997 was due to the departure of a large mutual fund account for which the Corporation provided investment management services.

Management fee rates for private and institutional accounts are lower than the rates for mutual funds. However, profit margins are acceptable since the investment management services are provided by in-house investment management teams and the Corporation incurs only limited marketing costs and no commission financing costs. The Corporation has been successful during the past two years in attracting new accounts, principally from the insurance sector for the management of segregated insurance fund products. The Corporation will continue to pursue new accounts and to grow the assets under management in the private and institutional segment of its business activities.

INVESTMENT IN MIDLAND WALWYN INC.

The Corporation currently owns approximately 18.8% of the ordinary shares of Midland Walwyn, the holding company for Midland Walwyn Capital Inc. Since its inception in 1990, Midland Walwyn has grown to become one of the largest managers of personal wealth for Canadians. The Company provides a broad range of products and services to individuals, institutions, corporations and government clients, and, in recent years, has expanded its portfolio of products and services to include managed assets, retirement and estate planning, banking and insurance services.

Three of the Corporation's directors, two of whom are senior officers, are directors of Midland Walwyn; but the holding company and investment dealer businesses are managed without direction from the Corporation. Midland Walwyn continues to be a major distributor of the Corporation's mutual funds and provides valuable expertise in corporate finance and other areas when retained by the Corporation. Its proprietary mutual fund business, Atlas Asset Management Inc., offering 24 funds, competes directly with the Corporation.

The Corporation accounts for its investment in Midland Walwyn using the equity method, whereby its proportional share of Midland Walwyn's operating results, less the amortization of the excess of the purchase price of the investment over the value of net assets acquired, are included in the Corporation's consolidated net earnings.

On June 22, 1998 the Corporation announced that it had signed a support agreement with Merrill Lynch & Co. Inc. and certain Canadian affiliates (collectively "Merrill Lynch") to support Merrill Lynch's acquisition of all of the outstanding ordinary shares of Midland Walwyn pursuant to a plan of arrangement or other similar transaction. The support agreement expires on December 31, 1998 or earlier under certain conditions, and restricts the Corporation from selling its Midland Walwyn shares without Merrill Lynch's consent until that time except under certain circumstances.

Detailed Review of Operating Results

REVENUE

Revenue increased by $146.2 million to $515.5 million for the year ended March 31, 1998 from $369.3 million for the year ended March 31, 1997 (1996 – $269.4 million).

MANAGEMENT AND ADMINISTRATION FEE REVENUE

Management and administration fees include fees charged to the Corporation's Canadian and U.S. mutual funds, investment advisory fees charged to private and institutional accounts, registered and investment account fees and loan and administration fees generated by M.R.S. Trust.

Management and administration fee revenue, net of distribution fees paid to Mackenzie Master Limited Partnership, increased by $131.1 million (42.2%) to $441.5 million during the year from $310.4 million for fiscal 1997 and $226.3 million for fiscal 1996 as detailed in Table 6.

Management and administration fee revenues relating to the Canadian and U.S. Fund Operations accounted for 79.1% of the Corporation's total revenue as compared to 75.2% for fiscal 1997 (1996 – 73.6%).

Our Canadian and U.S.-managed assets increased by 41.4% to $31.3 billion as at March 31, 1998 from $22.2 billion as at March 31, 1997 (1996 – $16.9 billion). The relevant components of assets under management are shown in Table 4.

Table 4 **Assets under management**
(in millions of dollars)

	1998	% Change	1997	% Change	1996
Canadian mutual funds	**$ 24,290**	40.9	$ 17,240	34.3	$ 12,836
U.S. mutual funds	**5,550**	40.9	3,938	83.2	2,149
Private & institutional clients	**1,494**	53.4	974	(48.7)	1,899
	$ 31,334	41.4	$ 22,152	31.2	$ 16,884

Net sales of the Corporation's Canadian mutual funds in the amount of $3.6 billion and fund performance of $3.4 billion, combined to provide year-over-year growth in assets of $7.0 billion to $24.3 billion from $17.3 billion as at March 31, 1997 (1996 – $12.8 billion).

Net sales of mutual funds managed by our U.S. Operations declined by $0.6 billion to $0.8 billion as compared to $1.4 billion for the year ended March 31, 1997 (1996 – $0.3 billion). The decline in net sales was primarily attributable to:

- higher net sales of Ivy International Fund during the fourth quarter of fiscal 1997 in anticipation of the fund closing;
- lower net sales of Ivy International Fund in fiscal 1998, after the fund closed to new investors in April 1997; and
- higher redemptions attributable to negative investor sentiment stemming from the Asian market turmoil.

Table 5 Mutual fund asset growth
(in millions of dollars)

Year ended March 31	**1998**	% Change	1997	% Change	1996
Opening Assets	**$ 21,178**	41	$ 14,985	32	$ 11,319
Gross Sales	**8,859**	24	7,168	57	4,577
Redemptions	**4,376**	50	2,926	23	2,387
Net Sales	**4,483**	6	4,242	94	2,190
Market Appreciation [1]	**4,179**	114	1,951	32	1,476
Increase in Assets	**8,662**	40	6,193	69	3,666
Closing Assets	**$ 29,840**	41	$ 21,178	41	$ 14,985

[1] *Includes reinvested distributions*

Table 6 Source of management and administration fees
(in thousands of dollars)

	1998	Change	1997	Change	1996
Gross Canadian mutual fund management and administration fees	**$ 381,664**	$ 108,297	$ 273,367	$ 69,772	$ 203,595
Distribution fees paid to limited partnerships	**(24,568)**	(657)	(23,912)	2	(23,914)
Net revenue from Canadian mutual fund management and administration fees	**357,096**	107,640	249,455	69,774	179,681
Private and Institutional account fees	**3,144**	102	3,042	(1,022)	4,064
US mutual fund management	**50,825**	22,461	28,364	9,824	18,540
Registered plan account fees	**24,564**	1,952	22,612	3,572	19,040
Mortgage and trust administration fees	**3,876**	(754)	4,630	1,925	2,705
Other	**1,973**	(328)	2,302	(31)	2,333
	$ 441,478	$ 131,073	$ 310,405	$ 84,042	$ 226,363

DISTRIBUTION FEE REVENUE

Distribution fee revenue includes:

- redemption fees earned on units of mutual funds sold on a back load basis for which the Corporation and Mackenzie Investment were the primary distributors;
- commission revenue on sales of shares of Mackenzie Investment's sponsored funds on a front end load basis; and
- revenue from the Corporation's direct investment in Mackenzie Master Limited Partnership and its predecessors formed to pay selling commissions for sales of units of the Canadian mutual funds sold on a back load basis.

Distribution revenue increased by $20.6 million to $49.5 million from $28.9 million for the year ended March 31, 1998 (1996 – $14.9 million) as detailed in Table 7. The significant growth in sales of Canadian and U.S.-managed mutual funds combined with the Corporation's fiscal 1994 decision to internally fund the payment of selling commissions were the key contributors to the increase.

Table 7 Distribution revenue
(in thousands of dollars)

	1998	Change	1997	Change	1996
Redemption fees					
Canadian Mutual Funds	**$ 23,610**	$ 8,474	$ 15,136	$ 6,435	$ 8,701
U.S. Mutual Funds	**2,747**	2,034	713	294	419
Commissions					
U.S. mutual funds	**21,522**	10,513	11,009	6,508	4,501
Other	**1,582**	(414)	1,996	716	1,280
	$ 49,461	$ 20,607	$ 28,854	$ 13,953	$ 14,901

INTEREST RELATING TO LENDING OPERATIONS

Interest relating to lending activities is generated by M.R.S. Trust and includes interest earned from its mortgage and RRSP loan portfolios, revenues associated with its mortgage-backed securities activities and interest earned on its investment in short-term securities.

Interest relating to lending operations decreased by $1.9 million to $18.8 million from $20.7 million in the previous year. This decrease is primarily attributed to the decline in M.R.S. Trust's mortgage portfolio and the overall reduction in the weighted average interest rate of the mortgage portfolio.

Partially offsetting the impact of the reduction in the interest earned on M.R.S. Trust's mortgage portfolio, was the increased contribution from the growth in its RRSP loan portfolio. Since March 31, 1997 M.R.S. Trust's RRSP loan portfolio has grown from $89.4 million to $120.1 million, which includes $58.3 million of RRSP loans financed off-balance sheet (1997 – $33.4 million).

EXPENSES

GENERAL AND ADMINISTRATIVE

General and administrative expenses increased by $18.4 million (19.0%) to $114.7 million from $96.3 million for fiscal 1997 (1996 – $88.3 million) due primarily to higher staffing and bonus levels and increases in other expenses relating to the significant growth in the Corporation.

TRAIL COMMISSIONS

Trail commissions to dealers increased by $31.1 million (52.0%) to $90.9 million from $59.8 million for the year ended March 31, 1997 (1996 – $41.8 million), a result of the growth in mutual fund assets under management and increased investor preference for equity mutual funds with higher trail commissions. Table 8 provides the trail commissions applicable to the Canadian and U.S. Fund Operations.

Table 8 **Trail commissions**
(in thousands of dollars)

	1998	Change	1997	Change	1996
Canadian mutual fund assets	**$ 80,964**	$ 26,128	$ 54,836	$ 15,889	$ 38,947
U.S. mutual fund assets	**9,950**	4,962	4,988	2,112	2,876
	$ 90,914	$ 31,090	$ 59,824	$ 18,001	$ 41,823

SUB-ADVISOR FEES

Sub-advisor fees increased by $12.6 million (78.7%) to $28.7 million from $16.1 million for fiscal 1997 (1996 – $8.1 million) due to the growth in mutual fund assets in Canada and the U.S. as detailed in Table 4. The U.S. Operation pays sub-advisor fees to Northern Cross Investments Limited, for investment advisory services provided to Ivy International Fund. Assets in the fund grew to $2.9 billion (U.S.) as at March 31, 1998 from $1.97 billion (U.S.) for the comparable period last year (1996 – $0.6 billion (U.S.)). Sub-advisor fees paid by the Corporation to subsidiary companies have been eliminated from Table 9.

Table 9 **Sub-advisor fees**
(in thousands of dollars)

	1998	Change	1997	Change	1996
Canadian mutual fund assets	**$ 8,161**	$ 1,525	$ 6,636	$ 2,581	$ 4,055
U.S. mutual fund assets	**20,581**	11,129	9,452	5,443	4,009
	$ 28,742	$ 12,654	$ 16,088	$ 8,024	$ 8,064

INTEREST EXPENSE RELATING TO DEPOSIT OPERATIONS

Interest expense relating to deposit activities represents interest charges associated with M.R.S. Trust's guaranteed investment certificate and short-term deposit portfolios and interest paid on cash deposits held by planholders in their self-directed RRSPs for which M.R.S. Trust is the trustee.

Interest expense relating to deposit activities decreased by $2.8 million to $10.1 million from $12.9 million for the year ended March 31, 1997 (1996 – $15.1 million). This decrease is in line with the reduction in the overall customer deposit portfolio, which is consistent with the movement of the balance sheet loan portfolio, combined with the impact of lower interest rates for fiscal 1998 versus the previous fiscal year.

AMORTIZATION OF DEFERRED SELLING COMMISSIONS

Amortization of deferred selling commissions increased by $45.0 million to $106.9 million from $61.9 for the year ended March 31, 1997 (1996 – $31.4 million). Continued year over year growth in sales of Canadian and U.S. mutual funds on a deferred sales charge basis, combined with higher redemption fee revenue and the decision by the Corporation in fiscal 1994 to pay selling commissions directly, resulted in the increase. The Corporation accelerates the amortization of deferred selling commissions to the extent of redemption fee revenue received.

Table 10 **Amortization of deferred selling commissions**
(in thousands of dollars)

	1998	Change	1997	Change	1996
Canadian mutual funds assets	**$ 97,040**	$ 38,940	$ 58,100	$ 27,842	$ 30,258
U.S. mutual funds assets	**9,901**	6,065	3,836	2,675	1,161
	$ 106,941	$ 45,005	$ 61,936	$ 30,517	$ 31,419

Liquidity and Capital Resources

The year over year growth in cash, before the payment of selling commissions, continued to be strong. Cash generated from operations before changes in non-cash working capital, increased by $85.8 million (51.0%) to $254.0 million from $168.2 million for the year ended March 31, 1997 (1996 – $126.4). Increased net earnings and expenses not affecting cash were the primary reasons for the growth in cash flow from operations. This growth in cash has allowed the Corporation to fund the payment of selling commissions during the current year.

In addition to the capital resources generated from operations during the year, the Corporation also generated $14.8 million from the exercise of stock options as compared to $11.9 million for the previous year (1996 – $2.2 million) and Mackenzie Investment generated $1.6 million from the exercise of options as compared to $0 in fiscal 1997 (1996 – $0).

Chart 4 Cash flow and payment of selling commissions
(in millions of dollars)

Cash flow from operations (1)
Payment of selling commissions

(1) Before payment of selling commissions and non-cash balances related to operations

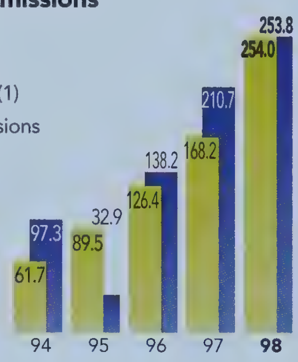


Table 11 is a summary of the consolidated cash flows of the Corporation.

Table 11 Cash flow
Years ended March 31

(in thousands of dollars)	**1998**	1997	1996
Cash provided by operating activities	**$ 289,799**	$ 145,195	$ 83,231
Cash provided by (used by) financing activities	**(21,812)**	89,239	59,074
	267,987	234,434	142,305
Cash used by investing activities	**(267,355)**	(210,881)	(183,572)
Net increase (decrease) in cash and cash equivalents	**632**	23,553	(41,267)
Currency exchange adjustment	**503**	—	—
Cash and cash equivalents – beginning of year	**126,741**	103,188	144,455
Cash and cash equivalents – end of year	**$ 127,876**	$ 126,741	$ 103,188

Operating activities

Cash flow generated by operating activities for the year ended March 31, 1998 was $289.8 million as compared to $145.2 million for the previous year (1996 – $83.2 million). Increased net earnings and expenses not affecting cash and the decrease in non-cash balances related to operations accounted for the improvement.

Financing activities

Cash used by financing activities declined to $21.8 million from cash generated of $89.2 for the year ended March 31, 1997 (1996 – $59.1 million). The decline in cash generated by financing activities relates primarily to the inclusion of net proceeds from the issuance of senior debentures, in the amount of $99.1 million, and the net proceeds of $7.2 million from the issue of Mackenzie Investment shares, in fiscal 1997. No similar financing initiatives were undertaken during the year ended March 31, 1998.

Investing activities

Cash used by investing activities increased by $56.5 million to $267.4 million for the year ended March 31, 1998 from $210.9 for the corresponding period last year (1996 – $183.6 million). The increase is mostly attributable to higher selling commissions paid on sales of mutual funds on a back load basis during the year, which rose to $253.8 million from $210.7 million for the year ended March 31, 1997 (1996 – $138.2 million). Improved market performance experienced during the past few years, a result of low inflation and interest rates, changing demographics and growing investor awareness of mutual funds, has increased mutual fund sales, especially on a back load basis.

The Corporation's strategy is to maintain sufficient capital and liquid assets to:

- finance its own operations;
- service its debt;
- provide capital requirements of subsidiary companies;
- pay dividends to shareholders; and
- acquire new businesses should opportunities arise.

The challenge facing the Corporation is to:

- maintain sufficient capital resources to pay selling commissions during periods of high growth in sales; and
- ensure capital resources and liquid assets, including credit facilities, exceed short-term requirements should acquisitions or other opportunities or unforeseen events arise.

The Corporation and Mackenzie Investment generate capital resources internally through net earnings and externally through bank financing, the issue of debentures, notes payable and units of income trusts and the sale of common shares.

To provide additional liquidity should an unforeseen event occur, the Corporation maintains a $50 million line of credit with a Canadian chartered bank and Mackenzie Investment has a $10 million (U.S.) loan facility from a U.S. bank.

In April 1996, the Corporation issued $100 million of unsecured senior debentures and, in December 1996, Mackenzie Investment issued two million common shares at a price of $4.25 per share and listed the shares on the Toronto Stock Exchange. (The shares and share price have been adjusted to reflect the July 23, 1997 2-for-1 stock split). The proceeds from these issues were used primarily to fund the payment of selling commissions.

In April 1998, the Corporation raised $200 million through the issue of Preferred A Units of Mackenzie Income Trust. The net proceeds of the offering, estimated to be $193 million, and the proceeds from the purchase of ordinary units by the Corporation, will be loaned to the Corporation to finance and refinance the sale of redemption charge securities of mutual funds managed by the Corporation for the period from January 1, 1997 to approximately December 31, 1998. The Corporation will issue, to Mackenzie Income Trust, Notes equal to 98% and Participation Certificates equal to 2% of the amount received from Mackenzie Income Trust.

In addition to the repayment of a portion of the Notes issued by the Mackenzie Income Trust and $7.6 million of Amortizing Asset-Backed Notes issued by Mackenzie Securitized Partnership, the Corporation will also be required to repay the $50 million aggregate principal amount of 7.20% Senior Debentures, designated as Series 1, which mature on March 15, 1999. The Corporation has allocated sufficient investments to repay the Senior Debentures and Amortizing Asset-Backed Notes. The repayment of Notes, issued by Mackenzie Income Trust, will be based upon a portion of the management fee revenue and all redemption fee revenue relating to the distributed units of the mutual funds.

M.R.S. Trust maintains sufficient liquid assets to meet ongoing operating and regulatory requirements. M.R.S. Trust uses customer deposits to fund mortgage and consumer loan lending activities. Liquidity is enhanced through the sale of mortgages to Ivy Mortgage Fund and the securitization of mortgages and RRSP consumer loans. Liquidity and capital ratio requirements are monitored on a regular basis and reported monthly to the regulatory authorities.

The Corporation will utilize the increasing cash flow generated from operating activities and continue to pursue other financing opportunities, such as Mackenzie Income Trust, to maintain liquidity and the strong capital base required to increase managed assets, repay debentures and notes, and complete other strategic initiatives.

YEAR 2000

The Year 2000 problem is the result of computer systems using only a two digit field to represent the year, e.g. "98" for 1998. When dates after 1999 are used with this date representation, errors in calculations and comparisons can occur. The Corporation is an extensive user of information technology and its operations depend on the proper functioning of computerized systems.

Within the Corporation, a dedicated team is working to resolve the Year 2000 problem and significant resources have been channelled into this activity. A complete inventory of potentially affected systems has been compiled and detailed assessment efforts to identify required changes are complete. While all of our application systems will require some degree of change, the effort involved ranges from fairly minimal in more recently developed systems to relatively extensive in others. Individual project plans are in place for remediation, testing and reintegration of all systems and changes to application code are underway for our most critical systems and those requiring more extensive renovations. Compliance of computer hardware and operating software, as well as voice and data communications networks, has also been assessed and we are upgrading to Year 2000 compliant versions as these become available. Our goal is to complete the repair and testing of all business-critical applications by the end of 1998, leaving the whole of 1999 for additional testing, including continued investigation and testing with potentially non-compliant business partner and supplier systems.

The Corporation is dependent on a number of third parties with whom we exchange data on a regular basis. In addition, a small number of our systems are "out sourced" to third party service providers, from whom we have obtained assurances that adequate plans exist to deal with non-compliant processes in a time frame acceptable to us. Failure to achieve Year 2000 compliance on the part of these entities could have an adverse effect on the Corporation's operations. Accordingly, a formal program exists to communicate with key business partners and suppliers in order to assess their Year 2000 status. This will be an ongoing process as we approach the millennium change. Based on the results of these investigations, we will consider the need for contingency plans or alternatives to our present arrangements.

The Outlook

In fiscal 1998, management completed an extensive review of its operations and developed a flexible five year plan. The plan is focused on the factors that will increase the Corporation's managed assets which will lead directly to revenue increases. Our revenue is and will continue to be derived primarily as a percentage of assets under management. Again, the record growth in assets under management in fiscal 1998 will clearly lead to higher revenue in fiscal 1999. Ensuring continuing profitability gains in fiscal 1999 and beyond will be a key operating management and strategic focus.

We expect the relative business prospects for the Corporation's Canadian and U.S. fund operations to improve further. Mackenzie Investment completed its first full year as an independent public company. While the competitive challenges for a small U.S. mutual fund company are intense, the company has the financial resources, management depth and strength to pursue its own strategy.

M.R.S. Trust's asset quality has steadily improved. Management sees nothing in its economic outlook that could materially impact its capital. New mortgage referral products, the Keystone Funds, mortgage and RRSP loan securitizations and several other services should continue the recent profitable growth of this business. As well, leveraging off a very conservative balance sheet will increasingly lower the risk-based costs, such as mortgage arrears losses, of this business.

Multiple Retirement Services and its new sister company M.R.S. Securities Services continue with M.R.S. Trust to develop a financial distribution service model which relies on independent distributors and their financial advisor representatives. The business vision of providing a suite of products and services from account administration, to trading, to cash and loan products, to trustee services, to asset allocation and wrap accounts is beginning to take shape and management of the MRS Group of Companies is beginning to successfully execute this model. Over the past year, and through the next two years, the execution of this model should substantially broaden revenues, contributing to what are substantial economies of scale.

In June 1998, we announced a potential sale of our minority equity interest in Midland Walwyn to Merrill Lynch & Co. Inc. ("Merrill Lynch") in conjunction with Merrill Lynch's proposed acquisition of Midland Walwyn Inc. This transaction will likely result in a substantial earnings gain resulting from the difference between the carrying value of this investment and the ultimate purchase price which will fluctuate until closing. The purchase price is fixed at 0.24 Merrill Lynch shares for each of the 7 million Midland Walwyn shares the Corporation currently owns. After closing, the Corporation will no longer include its equity share of Midland Walwyn earnings in its net earnings.

Future net earnings reported by the Corporation will be affected by other factors, relating to this transaction which at present are not determinable, such as:

- timing and proceeds of disposition of the Corporation's investment in Merrill Lynch;
- income taxes the Corporation will pay on disposition of its investment; and
- the Corporation's ultimate success in redeploying these assets at or above its targeted return on equity.

Two factors could have a moderating impact on near term earnings growth. First, any retreat in securities prices in stock and bond markets will serve to reduce revenue growth by decreasing the value of our assets under administration. Second, persistent declines in security values have also historically reduced future mutual fund sales, until security values again increase.

In all of our businesses we have been focused on improving financial performance. And this performance, when coupled with a strong balance sheet and growing cash reserves, will make it easier to respond to potential attractive competitive and strategic opportunities when markets inevitably correct. We will deploy these resources to cost-effectively build or acquire investment management financial service opportunities in Canada, the U.S. and elsewhere in the world. With over $5 billion dollars of investment management assets managed outside continental North America we are gaining experience with the relevant elements of similar organizations on other continents. Through a series of small and reasoned steps we will continue to look to develop and more broadly deploy our current asset management expertise.

Management views the Corporation and its subsidiaries as a flexible financial services platform from which a wide variety of investment management products and services can be provided to independent distributors in Canada, the U.S. and elsewhere. The opportunity provided by new technology, such as the Internet, has resulted in a vision of the future which has broad scope for growth. Growth will come not only from the businesses in which we currently compete and distributors we now serve – but also from new emerging products and services independent distributors will need to stay competitive in the future and from international distributors who are just beginning to sell our Canadian and U.S. mutual funds abroad.

On the regulatory front some of our mutual fund distributors are facing a great deal of uncertainty. The Ontario Securities Commission has played a lead role in forcing independent mutual fund distributors into an organization which is run at the executive and operating level by the Investment Dealers Association (IDA). The largest IDA members are controlled by Canada's banks and Canada's banks are large mutual fund distributors in their own right. The views of the new Mutual Fund Dealers Association's most powerful members, who may have less understanding of the risks, requirements or competitive environment facing the small independent mutual fund distributor, could have a significant influence on the structure of our distribution network. However, much good could come of this organization if it becomes truly self-regulated serving the interests of investors and all of its constituents.

Management has plans and products on the drawing board that it expects will complement current growth. In 1998, over 70% of the Corporation's consolidated revenue came from products launched or acquired after 1992. We will continue to introduce new products and services on an ongoing basis to ensure that an acceptable rate of growth in shareholder value is maintained.

To spearhead that growth, the Corporation stresses basic fundamental strengths:

- outstanding, motivated employees;
- superior long-term investment performance;
- quality administrative systems and services;
- a high commitment to the independent distribution network; and
- a strong balance sheet.

Management believes these strengths will result in continued improvements in earnings and shareholder value in future years.

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The accompanying consolidated financial statements and all information in the Annual Report are the responsibility of management and have been approved by the Board of Directors of the Corporation. The consolidated financial statements were prepared in accordance with accounting principles generally accepted in Canada and, where appropriate, reflect management's best estimates and judgements. Management is responsible for the integrity, objectivity and reliability of the consolidated financial statements and for the consistency of financial data included in the text of the Annual Report with that contained in the consolidated financial statements.

Management has developed and maintains a system of internal controls and supports an extensive program of internal audits. Management believes the internal controls provide reasonable assurance that financial records are reliable and form a proper basis for the preparation of financial statements and that the Corporation's assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for the financial statements in this Annual Report principally through its Audit, Finance and Risk Committee, comprised entirely of non-management directors. The Audit, Finance and Risk Committee meets with management as well as with the independent auditors to satisfy itself that management is properly discharging its financial reporting and internal control responsibilities, and to review the consolidated financial statements and the independent auditors' report. The Audit, Finance and Risk Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for presentation to the shareholders. The internal and the independent auditors have direct access to the Audit, Finance and Risk Committee.

The consolidated financial statements have been independently audited by Coopers & Lybrand on behalf of the shareholders, in accordance with generally accepted auditing standards. Their report outlines the nature of their audit and expresses their opinion on the consolidated financial statements of the Corporation.

James L Hunter

JAMES L. HUNTER
President and Chief Executive Officer

James Dryburgh

JAMES T. DRYBURGH
Senior Vice-President and Chief Financial Officer

May 6, 1998

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Mackenzie Financial Corporation as at March 31, 1998 and 1997 and the consolidated statements of earnings and retained earnings and changes in financial position for each of the years in the three year period ended March 31, 1998. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1998 and 1997 and the results of its operations and the changes in its financial position for each of the years in the three year period ended March 31, 1998 in accordance with accounting principles generally accepted in Canada.

Coopers & Lybrand

COOPERS & LYBRAND
Chartered Accountants

Toronto, Canada
May 6, 1998

thousands of dollars

CONSOLIDATED BALANCE SHEETS

As at March 31	1998	1997
Assets		
Cash and short-term investments *(note 7)*	$ 127,876	$ 126,741
Accounts and other receivables *(notes 7 and 14)*	93,093	106,296
Income taxes recoverable	22,025	52,844
Loans *(notes 3, 7 and 14)*	205,702	217,795
Deferred selling commissions and investment in related partnerships *(note 4)*	515,173	368,285
Investment in affiliated company	77,581	68,682
Management contracts	11,903	12,497
Capital assets *(note 5)*	29,668	26,648
Goodwill	5,153	6,099
Other assets *(notes 6 and 14)*	13,945	6,660
	$ 1,102,119	$ 992,547
Liabilities		
Bank loans	$ 9,633	$ 6,805
Accounts payable and accrued liabilities	78,030	86,268
Customer deposits *(notes 7 and 14)*	254,292	278,302
Debentures and notes *(notes 8 and 14)*	124,259	131,341
Deferred taxes	181,609	128,389
Minority interest	9,263	4,661
	657,086	635,766
Shareholders' Equity		
Capital stock *(note 9)*		
Authorized – Unlimited number of common shares		
Issued and outstanding		
– 124,904,630 (1997 – 122,259,630) common shares	67,655	52,887
Retained earnings	374,626	303,894
Currency exchange adjustment *(note 2)*	2,752	—
	445,033	356,781
	$ 1,102,119	$ 922,547

(The accompanying notes are an integral part of these consolidated financial statements.)

Signed on behalf of the Board

Alexander Christ

ALEXANDER CHRIST
Director

F. Warren Hurst

F. WARREN HURST
Director

thousands of dollars except per share figures

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

For the years ended March 31	**1998**	1997	1996
Revenue			
Management and administration fees	**$ 466,046**	$ 334,317	$ 250,277
Less distribution fees paid to limited partnerships	**(24,568)**	(23,912)	(23,914)
	441,478	310,405	226,363
Distribution revenue	**49,461**	28,854	14,901
Interest relating to lending operations	**18,831**	20,684	22,466
Interest and dividends	**3,536**	6,860	5,732
Gain (loss) on sale of investments	**2,238**	2,509	(53)
	515,544	369,312	269,409
Expenses			
General and administrative	**114,656**	96,339	88,334
Trail commissions to dealers	**90,914**	59,824	41,823
Subadvisory fees	**28,742**	16,088	8,064
Interest expense relating to deposit operations	**10,075**	12,853	15,098
Interest expense on bank loans	**692**	540	795
Interest expense on notes payable *(note 8)*	**1,812**	2,264	2,688
Interest expense on senior debentures *(note 8)*	**7,460**	7,419	—
Depreciation and amortization of capital assets	**14,168**	13,739	10,255
Amortization of goodwill	**1,031**	1,066	1,258
Amortization of management contracts	**2,064**	1,863	3,174
Amortization of deferred selling commissions *(note 4)*	**106,941**	61,936	31,419
	378,555	273,931	202,908
Earnings before provision for income taxes, equity in earnings of affiliated company and dilution gain (loss)	**136,989**	95,381	66,501
Provision for (recovery of) income taxes *(note 10)*			
Current	**10,687**	6,722	(13,377)
Deferred	**53,220**	35,586	44,380
	63,907	42,308	31,003
Net earnings before equity in earnings of affiliated company and dilution gain (loss)	**73,082**	53,073	35,498
Equity in earnings of affiliated company	**10,159**	9,905	5,230
Dilution gain (loss)	**(638)**	3,062	—
Minority interest share of earnings	**(1,945)**	(526)	—
Net earnings for the year	**80,658**	65,514	40,728
Retained earnings – beginning of year	**303,894**	247,424	215,402
Adjustment for impaired loans	**—**	—	(390)
	303,894	247,424	215,012
Dividends paid	**9,926**	9,044	8,316
Retained earnings – end of year	**$ 374,626**	$ 303,894	$ 247,424
Earnings per share – basic *(note 9(a))*	**$ 0.65**	$ 0.54	$ 0.34
Fully diluted earnings per share *(notes 9(a) and 9(c))*	**$ 0.62**	$ 0.52	$ 0.33

(The accompanying notes are an integral part of these consolidated financial statements.)

thousands of dollars

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended March 31	**1998**	1997	1996
Operating Activities			
Net earnings for the year	**$ 80,658**	$ 65,514	$ 40,728
Items not affecting cash –			
Depreciation and amortization	**124,204**	78,604	46,106
Deferred taxes	**53,220**	35,586	44,380
Adjustment for impaired loans	**—**	—	(390)
Equity in earnings of affiliated company net of dividends received of $1,260 (1997 – $910; 1996 – $840)	**(8,899)**	(8,995)	(4,390)
Dilution (gain) loss	**638**	(3,062)	—
Minority interest share of earnings	**1,945**	526	—
Currency exchange adjustment *(note 2)*	**2,249**	—	—
	254,015	168,173	126,434
Net decrease (increase) in non-cash balances related to operations *(note 11)*	**35,784**	(22,978)	(43,203)
	289,799	145,195	83,231
Financing Activities			
Proceeds from (repayment of) bank loans	**2,828**	(7,995)	1,788
Repayment of notes payable	**(7,082)**	(6,632)	(6,211)
Proceeds from issue of senior debentures *(note 8)*	**—**	99,053	—
Net proceeds from issue of Mackenzie Investment Management Inc. shares	**1,610**	7,174	—
Increase (decrease) in customer deposits	**(24,010)**	(5,176)	69,598
Payment of dividends	**(9,926)**	(9,044)	(8,316)
Issue of common shares	**14,768**	11,859	2,215
	(21,812)	89,239	59,074
Investing Activities			
Purchase of capital assets	**(17,188)**	(14,465)	(13,463)
Payment of selling commissions	**(253,829)**	(210,715)	(138,168)
Decrease (increase) in loans	**12,093**	6,935	(34,500)
Decrease (increase) in other assets	**(7,285)**	6,683	2,628
Other	**(1,146)**	681	(69)
	(267,355)	(210,881)	(183,572)
Increase (decrease) in cash and cash equivalents	**632**	23,553	(41,267)
Currency exchange adjustment on cash *(note 2)*	**503**	—	—
Cash and cash equivalents – beginning of year	**126,741**	103,188	144,455
Cash and cash equivalents – end of year	**$ 127,876**	$ 126,741	$ 103,188
Cash	**$ 17,912**	$ 11,145	$ 8,907
Short-term investments	**109,964**	115,596	94,281
	$ 127,876	$ 126,741	$ 103,188

(The accompanying notes are an integral part of these consolidated financial statements.)

thousands of dollars except per share figures

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended March 31, 1998, 1997 and 1996

1 Description of Business

The Corporation is incorporated under the Business Corporations Act (Ontario). Its shares, which are widely held, are listed on The Toronto Stock Exchange and the Montreal Exchange, under the ticker symbol MKF, and quoted on NASDAQ in the United States under the ticker symbol MKFCF. Effective December 13, 1996, the common shares of Mackenzie Investment Management Inc., a majority owned subsidiary of the Corporation, were listed on The Toronto Stock Exchange under the ticker symbol MCI.

The Corporation's principal business is the marketing and management of public mutual funds in both Canada and the United States. In addition, the Corporation provides investment management services to other public mutual funds and private accounts.

The Corporation's main ancillary businesses are the operations of M.R.S. Trust Company and Multiple Retirement Services Inc. These subsidiaries provide trustee and administrative services to registered and investment accounts. As well, M.R.S. Trust Company conducts deposit taking and lending activities.

The Corporation maintains a minority interest in Midland Walwyn Inc., the holding company for the brokerage firm, Midland Walwyn Capital Inc.

2 Significant Accounting Policies

The Corporation's financial statements are prepared in accordance with accounting principles generally accepted in Canada. See note 16 for a reconciliation of differences between the consolidated financial statements using Canadian generally accepted accounting principles and United States generally accepted accounting principles. The significant accounting policies are as follows:

Management's Estimates

Preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its directly and indirectly owned subsidiaries and partnership of which the principal operating entities are:

- Mackenzie Investment Management Inc. ("MIMI") (a Delaware company) 85%
- M.R.S. Trust Company ("MRSTC") 100%
- Multiple Retirement Services Inc. ("MRSI") 100%
- Mackenzie MEF Management Inc. 100%
- Mackenzie Securitized Partnership ("MSP") 100%
- Mackenzie Financial Services Inc. ("MFSI") 100%

Investment in Affiliated Company

The Corporation accounts for its investment in Midland Walwyn Inc. ("MWI") using the equity method whereby the investment is initially recorded at cost and adjusted to recognize the Corporation's share of after-tax earnings or losses less any dividends received. The excess of the purchase price of MWI over the value of net assets acquired of $15,298 is being amortized on a straight line basis over 20 years. The Corporation owns approximately 18.8% of the ordinary shares of MWI with a quoted market value of $133,700 (1997 – $85,400).

Short-term Investments

Short-term investments, consisting of liquid assets, are carried at amortized cost which approximates market value.

Foreign Currency Translation

MIMI, a majority owned U.S. company, was previously considered to be financially and operationally dependent on the Corporation and accordingly, the temporal method was used to translate its financial statements into Canadian dollars. Using this method, foreign exchange gains and losses, which were not material during the two years ended March 31, 1997, were reflected in the Consolidated Statements of Earnings and Retained Earnings. As a result of the growth in earnings and cash flow reported by MIMI during the two years ended March 31, 1997, the renegotiation and increase in its line of credit with a U.S. bank during the year ended March 31, 1997 without the Corporation's guarantee and the issuance of one million of its common shares to the public and the listing of those shares on The Toronto Stock Exchange, management now considers MIMI to be a self-sustaining operation. Therefore, commencing April 1, 1997 MIMI's financial statements have been translated to Canadian dollars using the current rate method, a method of translation which translates assets and liabilities at the rate of exchange in effect on the balance sheet date, and revenue and expense items are translated at the rate of exchange in effect on the dates of the relevant transactions. Any resulting exchange gains or losses are reported in shareholders' equity as currency exchange adjustment.

Capital Assets

Capital assets are carried at cost less accumulated depreciation and amortization.

Depreciation and amortization are provided at annual rates as follows:

- Furniture and equipment – 20% diminishing balance basis
- Computer hardware – 30% diminishing balance basis
- Computer software – 50% straight-line basis
- Leasehold improvements – straight-line over term of lease

Loans

Loans are stated at cost, which includes interest capitalized and accrued, and other charges, less repayments and allowances for losses. Interest income on non-performing loans is not accrued. Loans are classified as being non-performing when a specific allowance has been established or when interest or principal is past due 90 days. When the value of any loan is identified as impaired, the carried amounts are adjusted to estimated realizable amounts. Estimated realizable amounts are measured by discounting reasonably determinable expected future cash flows at the effective interest rate inherent in the loan or using the fair value of underlying security less realization costs or observable market prices for the loans.

Goodwill

Goodwill is recorded at cost and is being amortized on a straight-line basis over ten years. The Corporation assesses the value of its goodwill by considering the estimated future economic benefit associated with the earnings capacity of its subsidiaries. Goodwill is written down when it is considered that a permanent impairment in ongoing value has occurred.

Management Contracts

Management contracts are recorded at cost and are amortized on a straight-line basis primarily over a ten year period. The Corporation assesses the value of its management contracts by considering the future economic benefit associated with the revenue capacity of the related mutual funds.

Selling Commissions and Investment in Related Partnerships

The Corporation directly finances selling commissions relating to its mutual funds which are distributed on a deferred sales charge basis. In addition, the Corporation previously participated with private investors in various related limited partnerships whose primary business purpose was to distribute and fund deferred sales charge mutual funds. These related limited partnerships were consolidated into Mackenzie Master Limited Partnership ("MLP") and the units of MLP were listed on The Toronto Stock Exchange. Selling commissions and investment in MLP are recorded at cost and are amortized over five to seven years. Unamortized deferred selling commissions and investment in MLP are written-off in the period to the extent that it is unlikely that expected future revenues will recover the unamortized costs.

3 Loans

An analysis of M.R.S. Trust Company loans and related provision for credit losses is as follows:

	1998				1997
		Provision			
	Gross Amount	Specific	General	Carrying Amount	Carrying Amount
Loans:					
NHA insured mortgages	$ 104,149	$ —	$ —	$ 104,149	$ 113,777
Conventional residential mortgages	25,510	282	525	24,703	29,834
Conventional commercial mortgages	17,363	200	2,084	15,079	18,473
	147,022	482	2,609	143,931	162,084
Consumer loans	62,090	—	319	61,771	55,711
Total loans	$ 209,112	$ 482	$ 2,928	$ 205,702	$ 217,795

Specific Provision

Loans are reviewed regularly by management to assess classification as non-performing and, where appropriate, to require provision or write-off. The determination of the estimated recovery amount of non-performing loans is based on either discounting of estimated cash flows, the fair value of the underlying security or observable market prices, as appropriate, in accordance with management's recovery plan. The value of collateral, which may vary by type of loan and which may include cash, real property, accounts receivable, guarantees, inventory or other capital assets, is considered in establishing provisions. As at March 31, 1998, $1,087 (1997 – $1,154) of residential mortgages, $200 (1997 – $1,470) of commercial mortgages and $nil (1997 – $152) of consumer loans were classified as impaired.

General Provision

The general provision is established at a level which reflects management's estimate of the provisions required in respect of the loans for which individual specific provision cannot yet be determined.

4 Deferred Selling Commissions and Investment in Related Partnership

During the year ended March 31, 1998, the Corporation funded $253,829 (1997 – $210,715, 1996 – $138,168) in deferred selling commissions.

The Corporation recorded amortization of $106,042 (1997 – $60,537; 1996 – $30,032) of deferred selling commissions funded directly and amortization of $899 (1997 – $1,399; 1996 – $1,387) of its investment in MLP.

	1998	1997
Deferred selling commissions	**$ 760,927**	$ 507,098
Investment in MLP	**6,996**	6,996
	767,923	514,094
Accumulated amortization	**252,750**	145,809
	$ 515,173	$ 368,285

Redemption fees are payable by mutual fund unitholders if mutual fund units acquired on a deferred sales charge basis are redeemed within a specified period. The Corporation has estimated that its entitlement to such redemption fees, net of the permitted 10% free redemptions, at March 31, 1998, would have amounted to $733,115 (1997 – $467,559) if all unitholders had redeemed their fund units on that date.

5 Capital Assets

	1998	1997
Furniture and equipment	**$ 17,202**	$ 12,947
Leasehold improvements	**16,149**	9,476
Computer hardware	**15,414**	14,162
Computer software	**26,776**	38,788
	75,541	75,373
Accumulated depreciation and amortization	**45,873**	48,725
	$ 29,668	$ 26,648

6 Other Assets

Other assets comprise the following:

	1998	1997
Mutual fund seed capital – at cost (quoted value $13,149; 1997 – $4,134)	**$ 11,329**	$ 3,857
Other	**2,616**	2,803
	$ 13,945	$ 6,660

7 Customer Deposits

M.R.S. Trust Company held segregated assets as collateral for customer deposits as follows:

	1998	1997
Cash and short-term investments	**$ 45,651**	$ 58,734
Loans		
Mortgage loans	**130,160**	154,195
Consumer loans	**62,090**	53,159
Accounts and other receivables	**16,391**	12,214
Total assets held for customer deposits	**$ 254,292**	$ 278,302

8 Debentures and Notes

	1998	1997
Senior Debentures		
Series 1	**$ 50,000**	$ 50,000
Series 2	**50,000**	50,000
	100,000	100,000
Notes	**24,259**	31,341
	$ 124,259	$ 131,341

Senior Debentures

Effective April 2, 1996, by short form prospectus, the Corporation issued $100,000 of unsecured indebtedness evidenced by $50,000 aggregate principal amount of 7.20% Senior Debentures designated as Series 1, maturing March 15, 1999 and $50,000 aggregate principal amount of 7.72% Senior Debentures designated as Series 2, maturing March 15, 2001. Interest on the Senior Debentures is payable in semi-annual instalments on March 15 and September 15. The expense of the issue, inclusive of underwriters' fees of $538, was $947.

Notes

Amortizing Asset-Backed Notes ("Notes"), Series 1994-1 mature on March 1, 2001, bear interest at 6.67% per annum, calculated semi-annually, and are repayable monthly in equal blended amounts of principal and interest of $744. A fixed and floating charge on MSP's right to receive distribution and related fees, the proceeds therefrom and amounts from investments of its liquid assets has been pledged as collateral for the Notes which are non-recourse to the Corporation. The annual principal payments required in each of the next three years are: $7,562 in 1999; $8,075 in 2000 and $8,622 in 2001, at which point in time the Notes will be fully repaid.

9 Capital Stock

(a) Stock Split

On October 24, 1997, the Board of Directors of the Corporation approved a 2-for-1 stock split of the common shares of the Corporation. This stock split was effected by declaration of a stock dividend of one additional common share for each common share of the Corporation issued and outstanding on the dividend record date of November 10, 1997. All references to shares and per share amounts in the financial statements have been adjusted retroactively to reflect the 2-for-1 stock split.

(b) Stock Options

The Corporation has granted options to purchase common shares to employees and others, at a minimum of the market price on the date the options were granted. These options have five year terms and are exercisable one year from date of grant.

A maximum number of 4,425,664 common shares has been reserved for future option grants under the share option plan. The maximum number of shares to be allocated to each employee is 1% of the issued and outstanding common shares of the Corporation.

			Stock Options				
Year Granted	Expiry Date	Option Exercise Price $	Outstanding March 31, 1997	Issued in Fiscal 1998	Exercised in Fiscal 1998	Cancelled in Fiscal 1998	Outstanding March 31, 1998
1992	1997	2.48 – 2.75	94,000	—	94,000	—	—
1993	1998	3.81 – 6.00	2,595,800	—	1,436,600	—	1,159,200
1994	1999	3.75 – 4.75	782,000	—	229,000	—	553,000
1995	2000	4.00 – 5.63	1,400,000	—	385,100	—	1,014,900
1996	2001	6.63 – 8.85	1,611,400	—	500,300	10,000	1,101,100
1997	2002	14.13 – 20.48	—	3,264,000	—	191,000	3,073,000
1998	2003	17.65	—	35,000	—	—	35,000
			6,483,200	3,299,000	2,645,000	201,000	6,936,200

During the year ended March 31, 1998, options for 2,645,000 shares (1997 – 3,002,400; 1996 – 729,000) were exercised for cash proceeds of $14,768 (1997 – $11,859; 1996 – $2,215). The average weighted price for options issued during the year ended March 31, 1998 was $13.16 (1997 – $6.85; 1996 – $4.80).

(c) Earnings per Share

Fully diluted earnings per share have been calculated on the basis that all of the options to purchase common shares existing at the end of the year had been exercised at the beginning of the year or date of issuance, if later.

10 Income Taxes

(a) Reconciliation of statutory effective rates of income tax:

	1998	1997	1996
Earnings before provision for income taxes			
Canada	**$ 115,299**	$ 90,832	$ 65,320
United States	**21,690**	4,549	1,181
Earnings before provision for income taxes	**$ 136,989**	$ 95,381	$ 66,501
Income taxes			
Federal and Provincial Statutory tax rates	**44.6%**	44.6%	44.6%
Tax at statutory rates	**$ 61,124**	$ 42,559	$ 29,673
Adjusted for the effect of:			
Utilization of loss carry forward – MIMI	**—**	(4,549)	(1,181)
Difference between Canadian rate and rate applicable to MIMI	**(1,629)**	—	—
Tax exempt investment income	**(86)**	(95)	(113)
Disallowed expenses			
Food and entertainment	**1,158**	905	1,223
Amortization	**1,219**	664	1,334
Other items	**2,121**	2,824	67
Income taxes reported	**$ 63,907**	$ 42,308	$ 31,003

(b) MIMI has non-capital losses for income tax purposes of approximately $10,513. The tax benefit of these losses has been reflected in the financial statements. These losses arise from timing differences between the deduction of expenses in the financial statements and for income tax purposes and expire as follows:

Year Ending	March 31, 2007	$ 1,269
	March 31, 2008	937
	March 31, 2010	489
	March 31, 2011	16
	March 31, 2012	7,802
	Total	$ 10,513

11 Supplemental Cash Flow Information

Changes in non-cash balances related to operations:

	1998	1997	1996
Net (increase) decrease in non-cash balances related to operations:			
Accounts and other receivables	**$ 13,203**	$ (44,515)	$ (10,264)
Income taxes recoverable	**30,819**	(14,789)	(38,055)
Accounts payable and accrued liabilities	**(8,238)**	36,326	15,373
Income taxes payable	**—**	—	(10,257)
	$ 35,784	$ (22,978)	$ (43,203)

12 Commitments

The Corporation has operating lease commitments as shown:

1999	$ 12,397
2000	9,830
2001	7,224
2002	5,749
2003	5,261
2004 and thereafter	6,072
Total	$ 46,533

13 Segmented Information

The Corporation carries on its activities through one business segment, namely financial services, and in two geographic segments, Canada and the United States.

		Revenues	Earnings before Taxes, Equity in Earnings of Affiliated Company and Dilution Gain (Loss)	Net Earnings	Assets
1998	**Canada**	**$ 430,041**	**$ 115,299**	**$ 67,334**	**$ 1,014,555**
	United States	**85,503**	**21,690**	**13,324**	**87,564**
	Total	**$ 515,544**	**$ 136,989**	**$ 80,658**	**$ 1,102,119**
1997	Canada	$ 323,056	$ 85,187	$ 55,320	$ 905,592
	United States	46,256	10,194	10,194	86,955
	Total	$ 369,312	$ 95,381	$ 65,514	$ 992,547
1996	Canada	$ 242,488	$ 63,855	$ 38,082	$ 733,742
	United States	26,921	2,646	2,646	33,729
	Total	$ 269,409	$ 66,501	$ 40,728	$ 767,471

14 Fair Value of Financial Instruments

The amounts set out below represent the fair value of on- and off-balance sheet financial instruments of the Corporation. The amounts do not include the fair value of underlying lines of business.

While fair value amounts are designed to represent estimates of the amounts at which instruments could be exchanged in current transactions between willing parties, certain of the Corporation's financial instruments lack an available trading market. Therefore, fair values are based on estimates using present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flow and discount rates which reflect varying degrees of risk.

	Book value	Estimated fair value
Assets		
Other assets		
Seed capital	$ 11,329	$ 13,149
Loans	205,702	207,754
Accounts and other receivables		
Receivable on sale of mortgage-backed securities	2,820	3,379
	$ 219,851	$ 224,282
Liabilities		
Customer deposits		
Guaranteed investment certificates	$ 254,292	$ 256,749
Debentures and notes		
Notes	24,259	24,744
Senior debentures		
Series 1	50,000	50,875
Series 2	50,000	52,850
	124,259	128,469
	$ 378,551	$ 385,218

The estimated fair value of the remaining monetary assets and liabilities is approximately equal to book value as the items are short-term in nature.

The fair value of loans and customer deposits is determined by discounting the expected future cash flows of the loans and deposits at market rates for loans and deposits with similar credit risk.

15 Related Party Transactions

During the year, the Corporation entered into transactions with an affiliated company in which a significant ownership exists. These transactions relate to sales of mutual fund products and include commission and distribution costs at commercial rates totalling $30,115; (1997 – $21,404).

16 Differences from United States Accounting Principles

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. United States generally accepted accounting principles ("US GAAP") differ in the following material areas:

(a) Cash and short-term investments
Under US GAAP, short-term investments with original maturities in excess of three months are excluded from cash and short-term investments as defined in Statements of Financial Accounting Standards ("SFAS") No. 95. Such investments would have been reclassified to other assets.

(b) Deferred taxes
Under US GAAP, SFAS No. 109 requires deferred taxes to be accounted for by the liability method. Adjustments relate primarily to the recording of tax on the difference between the book value and the tax value of the investment in the affiliated company and the recording of deferred taxes using current tax rates.

(c) Other assets
Under US GAAP, SFAS No. 115 requires that trading securities be carried at market, with unrealized gains and losses included in earnings whereas under Canadian GAAP such assets are carried at the lower of cost or market.

(d) Primary earnings per share
During fiscal year 1998, the Corporation adopted SFAS No. 128, "Earnings per Share". Under SFAS No. 128, basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised and resulted in the issuance of common stock. Prior period amounts have been restated to conform to the requirements of SFAS No. 128. The new earnings per share standard in the U.S. is similar to current Canadian GAAP.

(e) Stock based compensation
Under US GAAP, SFAS No. 123 encourages, but does not require, entities to record compensation expense based on the fair value of stock options on the date of grant. The Corporation continues to follow the existing pronouncement which measures compensation expense based on the intrinsic value of the option on the date of grant.

The application of accounting principles generally accepted in the United States as previously described would have the following approximate effects on the consolidated financial statements:

Consolidated Balance Sheets

	1998	1997
Cash and short-term investments as reported	**$ 127,876**	$ 126,741
Effect of SFAS 95	**(48,000)**	(69,359)
Cash and short-term investments – US GAAP	**$ 79,876**	$ 57,382
Other assets as reported	**$ 13,945**	$ 6,660
Effect of SFAS 95	**48,000**	69,359
Effect of SFAS 115	**1,657**	1,098
Other assets – US GAAP	**$ 63,602**	$ 77,117
Deferred taxes as reported	**$ 181,609**	$ 128,389
Effect of SFAS 109	**19,402**	14,987
Deferred taxes – US GAAP	**$ 201,011**	$ 143,376
Shareholders' equity as reported	**$ 445,033**	$ 356,781
Effect of SFAS 109	**(19,402)**	(14,987)
Effect of SFAS 115	**1,657**	1,098
Shareholders' equity	**$ 427,288**	$ 342,892

Consolidated Statements of Earnings and Retained Earnings

	1998	1997	1996
Net earnings as reported	**$ 80,658**	$ 65,514	$ 40,728
Effect of SFAS 109	**(4,415)**	(3,609)	(3,561)
Effect of SFAS 115	**559**	(460)	1,826
Net earnings – US GAAP	**$ 76,802**	$ 61,445	$ 38,993

Weighted average number of shares outstanding during the year:

	1998	1997	1996
Primary	**124,033,869**	120,618,754	118,802,690
Fully diluted	**127,088,734**	122,547,672	120,311,230
Earnings per share:			
Primary	**$ 0.62**	$ 0.51	$ 0.33
Fully diluted	**$ 0.60**	$ 0.50	$ 0.32

Consolidated Statements of Changes in Financial Position

In addition to the adjustments previously described, under US GAAP, the payment of selling commissions is classified as an operating activity.

	1998	1997	1996
Cash provided by (used in) operating activities			
Under Canadian GAAP	**$ 289,799**	$ 145,195	$ 83,231
Payment of selling commissions	**(253,829)**	(210,715)	(138,168)
Under US GAAP	**35,970**	(65,520)	(54,937)
Cash provided by (used in) financing activities			
Under Canadian and US GAAP	**(21,812)**	89,239	59,074
Cash provided by (used in) investing activities			
Under Canadian GAAP	**(267,355)**	(210,881)	(183,572)
Reclassification of short-term investments	**21,359**	(69,359)	—
Payment of selling commissions	**253,829**	210,715	138,168
Under US GAAP	**7,833**	(69,525)	(45,404)
Increase (decrease) in cash and cash equivalents under US GAAP	**21,991**	(45,806)	(41,267)
Currency exchange adjustment on cash	**503**	—	—
Cash and cash equivalents – beginning of year under US GAAP	**57,382**	103,188	144,455
Cash and cash equivalents – end of year under US GAAP	**$ 79,876**	$ 57,382	$ 103,188
Cash	**$ 17,912**	$ 11,145	$ 8,907
Short-term investments	**61,964**	46,237	94,281
Under US GAAP	**$ 79,876**	$ 57,382	$ 103,188

Recently Issued Accounting Pronouncements

In June of 1997, the Financial Accounting Standards Board issued SFAS 130, "Reporting Comprehensive Income," which will be effective for the Company's fiscal year ending March 31, 1999. Under SFAS 130, companies are required to report comprehensive income as a measure of overall performance. Comprehensive income includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. The Company will adopt SFAS 130 in fiscal 1999. The effects of adopting this standard have not yet been determined.

In June of 1997, the Financial Accounting Standards Board issued SFAS 131, "Disclosures about Segments of an Enterprise and Related Information," which will be effective for the Company's fiscal year ending March 31, 1999. SFAS 131 redefines how operating segments are determined and requires expanded quantitative and qualitative disclosures relating to an entity's operating segments. The Company will adopt SFAS 131 in fiscal 1999. The effects of adopting this standard have not yet been determined.

17 Subsequent Event

Effective April 6, 1998, the Corporation completed the first closing of the initial public offering of eight million Preferred A Units of Mackenzie Income Trust (the "Trust") for $200 million, $120 million payable at closing and $80 million on November 30, 1998. Concurrent with the closing of the offering, the Corporation subscribed for $216 million of ordinary units of the Trust. The Preferred A Units are listed on the Toronto Stock Exchange under the ticker symbol MKA.IR and have been rated P-2 by Canadian Bond Rating Service Inc. The net proceeds of the offering, estimated to be $193 million, and the proceeds from the purchase of ordinary units by the Corporation will be loaned to the Corporation to finance and refinance the sale of redemption charge securities of mutual funds managed by the Corporation and its Canadian subsidiaries for the period January 1, 1997 to approximately December 31, 1998. The Corporation will issue, to the Trust, Notes equal to 98% and Participation Certificates equal to 2% of the amount received from the Trust. The Notes bear interest at a rate of 6% per annum.

The Trust will receive payments equal to a portion of the management fees and all redemption fees applicable to units of redemption charge securities distributed by the Corporation where the selling commissions were paid with monies received from the Trust. The payments will be applied first to interest expense on the Notes and the balance applied as a reduction of the outstanding Notes principal.

The Trust will distribute quarterly to each Preferred A Unitholder a cumulative, preferential share of the Trust's distributable cash flow (the "Preferential Distribution"). The amount of the Preferential Distribution will be $6.0192 per Preferred A Unit per annum comprised of both income and capital. The first Preferential Distribution will be paid on or before July 15, 1998 and the final Preferential Distribution will be on or before January 15, 2003.

18 Comparative Figures

Certain comparative figures have been reclassified to conform with the presentation as at and for the year ended March 31, 1998.

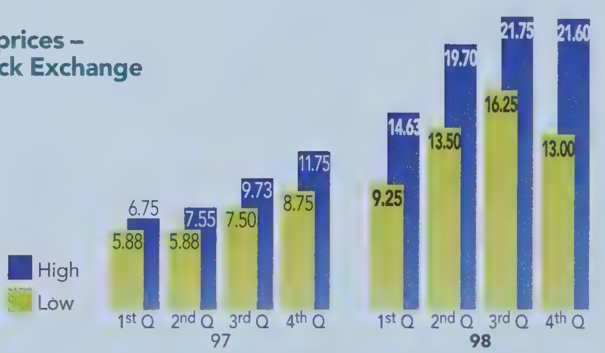
Selected Quarterly Financial Information

Unaudited
in millions of dollars except per share and price data

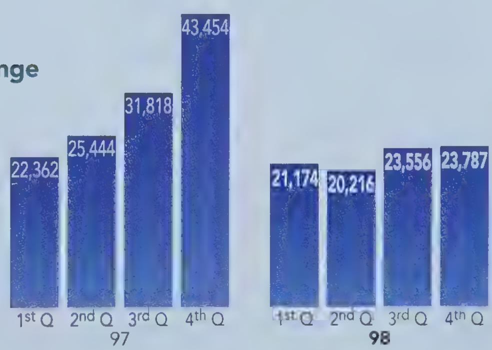
Fiscal 1998 *for quarter ended*	June 30	September 30	December 31	March 31
Revenues	**$ 117.51**	**$ 126.40**	**$ 130.26**	**$ 141.37**
Expenses	**$ 84.86**	**$ 90.64**	**$ 97.60**	**$ 105.46**
Equity in earnings of affiliated companies	**$ 2.79**	**$ 3.10**	**$ 1.56**	**$ 2.71**
Net earnings	**$ 19.70**	**$ 21.39**	**$ 18.29**	**$ 21.27**
Earnings per share	**$ 0.16**	**$ 0.17**	**$ 0.15**	**$ 0.17**

Fiscal 1997 *for quarter ended*	June 30	September 30	December 31	March 31
Revenues	$ 83.20	$ 84.30	$ 93.20	$ 108.60
Expenses	$ 64.60	$ 63.80	$ 70.00	$ 75.50
Equity in earnings of affiliated companies	$ 2.10	$ 1.20	$ 4.00	$ 2.60
Net earnings	$ 11.80	$ 12.60	$ 20.00	$ 21.10
Earnings per share	$ 0.10	$ 0.10	$ 0.17	$ 0.17

High/low share prices –
The Toronto Stock Exchange
(in dollars)



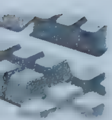
Trading volume –
The Toronto Stock Exchange
(in thousands of shares)



Per share prices, earnings and trading volume have been adjusted to reflect the November 1997 2-for-1 stock split.

Our History

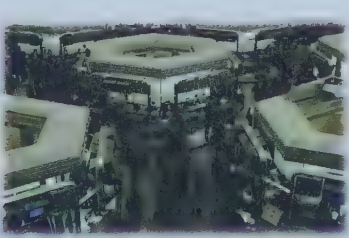
1968 • Opened Industrial Growth Fund
1971 • Opened Industrial Pension Fund
1972 • Acquired Industrial Equity Fund Limited
1973 • Mackenzie became a public company
1974 • Opened Industrial Income Fund
1975 • Acquired Industrial Dividend Fund Limited
• Opened Industrial American Fund
1976 • Acquired ITCO Investment Fund Limited
1977 • Merged Industrial Dividend Fund Limited with ITCO Investment Fund Limited
1980 • Acquired 30% interest in U.S.E. Fund Management Ltd.
1981 • Mackenzie's common shares listed on The Toronto Stock Exchange
• Acquired Mackenzie Equity Fund
1982 • Acquired Industrial Mortgage Securities Fund
1984 • Opened Industrial Cash Management Fund
1985 • Incorporated Mackenzie Investment Management Inc.
• Opened the Mackenzie Series Trust funds in the United States
• Opened Universal International Stock Fund
1986 • Acquired M.R.S. Trust Company
1987 • Opened Industrial Horizon Fund
• Formed Industrial Horizon Partnership 1987 and 1988
• Opened Mackenzie Canada Fund in the United States
1988 • Opened Industrial Future Fund
• Opened three tax exempt municipal funds in the United States
• Formed Industrial Horizon Partnership 1989
1989 • Opened Industrial Bond Fund
• Opened Mackenzie Growth and Income Fund in the United States



1990 • Formed Industrial Horizon Partnership
• Purchased minority interest in Midland Walwyn Inc.
1991 • Opened Industrial Balanced Fund
• Opened Industrial Short-Term Fund
1992 • Acquired Ivy Management, Inc. and management of the four Ivy Funds in the United States
• Opened Universal U.S. Emerging Growth Fund
• Formed Industrial Horizon Partnership 1992
• Opened four Ivy Funds in Canada
1993 • Formed Industrial Horizon Partnership 1992-II
• Acquired the remaining 70% of U.S.E. Fund Management Limited and management of four Universal Funds
• Acquired Multiple Retirement Services Inc.
1994 • Opened Ivy China Region Fund and Ivy Emerging Growth Fund in the United States
• Opened Universal Far East Fund, Universal World Asset Allocation Fund, Universal World Emerging Growth Fund, Universal World Precious Metals Fund, Universal World Balanced RRSP Fund and Ivy Mortgage Fund
• Formed Mackenzie Securitized Partnership
• Listed Mackenzie's common shares on NASDAQ and The Montreal Exchange
1995 • Opened Universal European Opportunities Fund, Universal Japan Fund, Universal U.S. Money Market Fund, Universal World Growth RRSP Fund and Universal World Tactical Bond Fund
• Opened Ivy Latin American Strategy Fund and Ivy New Century Fund in the United States
• Launched the STAR asset allocation program
• Formed Mackenzie Limited Partnership 1994 and Mackenzie Master Limited Partnership

1996 • Opened Universal Growth Fund
- Issued $50,000,000 Series 1 and $50,000,000 Series 2 Senior Unsecured Debentures

1997 • Opened Universal Canadian Balanced Fund and Universal World Science & Technology Fund in Canada
- Opened five Ivy Funds in the United States: Ivy Asia Pacific Fund, Ivy Global Natural Resources Fund, Ivy International Fund II, Ivy International Small Companies Fund and Ivy Pan-Europe Fund
- Public offering of Mackenzie Investment Management Inc. common shares (TSE stock symbol: MCI)



1998

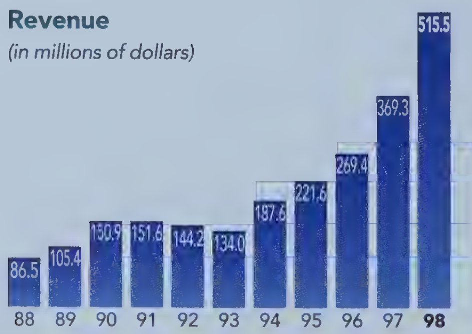
- **Opened Universal World High Yield Fund, Universal World Real Estate Fund and Universal World Value Fund in Canada**
- **Opened 10 new Keystone Funds with six independent investment advisors and launched the Keystone asset allocation service in Canada**
- **Launched M.R.S. Trust mortgage referral program for clients of financial advisors**
- **Created Mackenzie Income Trust and raised $200 million through an initial public offering of Preferred "A" Units, April 6, 1998, to finance selling commissions in Canada**

Eleven Year Statistical Summary

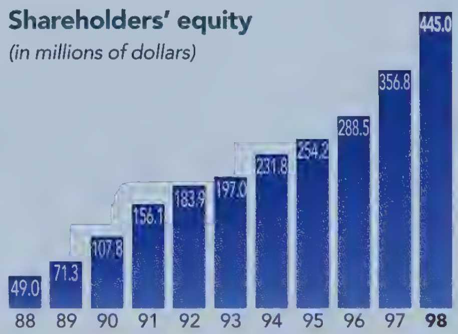
in thousands of dollars except per share figures

For the years ended March 31	**1998**	1997	1996	1995
Revenue	**$ 515,544**	$ 369,312	$ 269,409	$ 221,572
Earnings before income taxes and equity in earnings (loss) of affiliated company	**136,989**	95,381	66,501	53,731
Income taxes	**63,907**	42,308	31,003	25,066
Equity in earnings (loss) of affiliated company	**10,159**	9,905	5,230	785
Net earnings	**80,658**	65,514	40,728	29,450
Operating cash flow	**289,799**	145,195	83,231	101,659
Depreciation and amortization	**124,204**	78,604	46,106	34,241
Debentures and notes	**124,259**	131,341	37,973	44,184
Shareholders' equity	**445,033**	356,781	288,452	254,215
Assets under administration ($ millions)	**31,334**	22,152	16,884	13,100
Common shares outstanding	**124,904,630**	122,259,630	119,257,230	118,528,230
Per share data				
Net earnings	**$0.65**	$0.54	$0.34	$0.25
Net earnings (fully diluted)	**$0.62**	$0.52	$0.33	$0.25
Operating cash flow	**$2.34**	$1.21	$0.70	$0.86
Dividends paid	**$0.08**	$0.075	$0.070	$0.060
Book value	**$3.56**	$2.92	$2.42	$2.14

Revenue
(in millions of dollars)



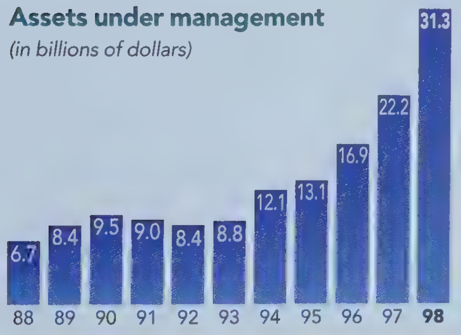
Shareholders' equity
(in millions of dollars)



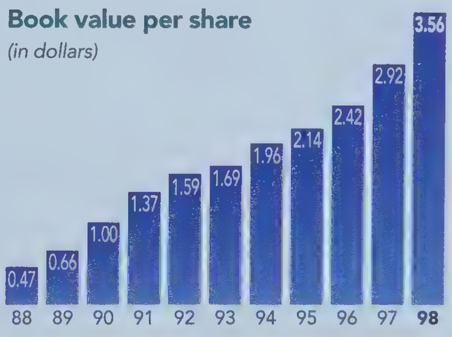
1994	1993	1992	1991	1990	1989	1988
$ 187,623	$ 133,951	$ 144,229	$ 151,596	$ 150,888	$ 105,437	$ 86,499
40,935	25,970	57,012	61,137	75,423	48,144	35,428
19,586	14,177	28,052	30,507	35,989	25,121	19,380
14,712	6,070	1,066	(81)	—	—	—
36,061	17,863	30,026	30,630	39,434	23,023	16,048
46,334	29,905	38,981	40,213	58,568	24,067	3,553
21,891	15,489	12,678	11,769	8,770	3,751	2,073
50,000	—	—	—	—	—	—
231,825	196,950	183,903	156,050	107,751	71,326	48,974
12,122	8,773	8,371	8,977	9,548	8,392	6,686
118,508,230	116,256,800	115,743,400	114,200,800	108,150,800	107,294,800	104,579,800
$0.31	$0.16	$0.26	$0.28	$0.37	$0.22	$0.17
$0.30	$0.15	$0.26	$0.27	$0.36	$0.21	$0.15
$0.39	$0.26	$0.34	$0.37	$0.54	$0.23	$0.04
$0.055	$0.050	$0.045	$0.040	$0.035	$0.025	$0.019
$1.96	$1.69	$1.59	$1.37	$1.00	$0.66	$0.47

Comparative figures for 1988 reflect all prior stock splits (3 for 1 in August 1979; 2 for 1 in September 1983; 3 for 1 in January 1986; 3 for 1 in September 1987; 2 for 1 in November 1997)

Assets under management
(in billions of dollars)



Book value per share
(in dollars)



The Board of directors is currently comprised of nine directors. Messrs. Christ, Cunningham and Hunter represent management on the Board. The remaining six directors are "unrelated directors" as defined in The Toronto Stock Exchange Guidelines for Improved Corporate Governance in Canada.

As indicated in the Corporation's information circular dated July 31, 1998, management is proposing to increase the Board to ten directors at the Annual Meeting to be held on September 11, 1998. The additional nominee is Gail Cook-Bennett, who would be an unrelated director. If all nominees for Board positions are elected as proposed the Board would be comprised of three management directors and seven unrelated directors.

There are two Committees of the Board: the Audit, Finance and Risk Committee and the Human Resource and Corporate Governance Committee. All of the members of the two Committees are unrelated directors. Together, the Committee mandates include processes to ensure that the Corporation currently meets all of the TSE Guidelines relating to corporate governance.

Directors

ALEXANDER CHRIST
Chairman
Mackenzie Financial Corporation

C. DAVID CLARK
Corporate Director,
Former Publisher and Chief Executive Officer
The Globe and Mail

DERMOT G. J. COUGHLAN
Chairman and Chief Executive Officer
Derlan Industries Ltd.

WILLIAM G. CRERAR
Corporate Director,
Former Chairman
Mackenzie Financial Corporation

PHILIP F. CUNNINGHAM
President and Chief Executive Officer
Mackenzie Financial Services Inc.

PETER K. HENDRICK
Corporate Director
Former Vice-President and Director
Wood Gundy Inc.

JAMES L. HUNTER
President and Chief Executive Officer
Mackenzie Financial Corporation

F. WARREN HURST
Corporate Director
Former Senior Policy Advisor
Investment Dealer's Association of Canada

ALASDAIR J. McKICHAN
Corporate Director
Former President
Retail Council of Canada

Committees of the Board of Directors

Audit, Finance and Risk Committee:
L to R: Dermot G. J. Coughlan, F. Warren Hurst (Chairman), Peter K. Hendrick

Human Resource and Corporate Governance Committee:
L to R: William G. Crerar, C. David Clark (Chairman), Alasdair J. McKichan

Mackenzie Financial Corporation

Chairman
ALEXANDER CHRIST

President & CEO
JAMES HUNTER

Vice-Chairman
NEIL LOVATT
(Chief Investment Officer)

Executive Vice-Presidents
PHIL CUNNINGHAM
HAROLD HANDS
(Corporate Secretary)
MICHAEL LANDRY

Senior Vice-Presidents
SIAN BROWN
JAMES DRYBURGH
(Chief Financial Officer)
TIMOTHY GLEESON
JERRY JAVASKY
WILLIAM KANKO
DAVID MCCULLUM
VERONICA ONYSKIW
STEPHEN POZGAJ
WILLIAM PROCTER
JOHN ROHR
PEGGY ROHR
MOIRA SAGANSKI
RICHARD SAMBROOK
FREDERICK STURM

Vice-Presidents
KIMBERLEY BARTON
DEREK BATTY
MARSHALL BLACK
BOBBI DEMCHUK
CHAN GHOSH
JAMES HAW
CHRIS KRESIC
CHRIS MCKIM
IAN OSLER
CHARLES ROTH
MERICI YOUNG

Mackenzie Financial Services Inc.

President & CEO
PHIL CUNNINGHAM

Executive Vice-Presidents
ANDREW DALGLISH
(Chief Operating Officer)
DAVID FEATHER
ANN SAVEGE
MARK TIFFIN

Senior Vice-Presidents
PAUL ALLAN
TODD BACKMAN
JEAN BUBENDORFF
JAMES FRASER
ANDREW GRANT
HOWARD GROSS
TERRENCE O'SULLIVAN
MARCUS SLADE
CANDY WU

Vice-Presidents
ALEX BRIGHT
ASHLEY CAMERON
LORETTA CASSELL
PETER CHISHOLM
MICHAEL EVANS
MARK FOLEY
LIANA GEORGE
DAVID GILBERT
TIMOTHY HERRON
CARL JAMES
BOB MASK
GIL MCGOWAN
HELENE NADEAU
LYNN VICKERS
DAVID WONG
MILLIE WONG
JUDITH YAMAMOTO

Mackenzie Investment Management Inc.

President & CEO
MICHAEL LANDRY

Executive Vice-President and
Chief Operating Officer
KEITH CARLSON

Senior Vice-President and
Chief Financial Officer and
Secretary/Treasurer
WILLIAM FERRIS

Senior Vice-President
JAMES BROADFOOT
(Chief Investment Officer)

Vice-President
BARBARA TREBBI

MRS Group of Companies

Group President
LAURIE MUNRO

President & CEO
M.R.S. Trust Company
ALLAN WARREN

President & CEO
Multiple Retirement Services Inc.
THERESA CURRIE

Chief Operating Officer
SCOTT SINCLAIR

Senior Vice-President and
Chief Financial Officer
EDWARD MERCHAND

Vice-Presidents
M.R.S. Trust Company
LEE GOLDMAN
BRUCE SHEPHERD

Vice-Presidents
Multiple Retirement Services Inc.
MARTIN BLOCK
MICHAEL KAZMIEROWSKI
IAN MELLOTT
MARY LOU RICE
DAVID VOWLES

CANADA

The Industrial Group of Funds

Industrial American Fund
Industrial Balanced Fund
Industrial Bond Fund
Industrial Cash Management Fund
Industrial Dividend Growth Fund
Industrial Equity Fund Limited
Industrial Growth Fund
Industrial Horizon Fund
Industrial Income Fund
Industrial Mortgage Securities Fund
Industrial Pension Fund
Industrial Short-Term Fund

STAR
Strategic Asset Allocation

17 individual portfolios of Mackenzie-managed mutual funds

IVY FUNDS

Ivy Canadian Fund
Ivy Enterprise Fund
Ivy Foreign Equity Fund
Ivy Growth and Income Fund
Ivy Mortgage Fund

KEYSTONE

Keystone AGF American Fund[8]
Keystone AGF Bond Fund[8]
Keystone AGF Equity Fund[8]
Keystone BPI High Income Fund[9]
Keystone Beutel Goodman Bond Fund[10]
Keystone Saxon Smaller Companies Fund[11]
Keystone Sceptre Equity Fund[12]
Keystone Sceptre International Equity Fund[12]
Keystone Spectrum United American Fund[13]
Keystone Spectrum United Equity Fund[13]

THE UNIVERSAL FUNDS

Universal Americas Fund[1]
Universal Canadian Balanced Fund[7]
Universal Canadian Growth Fund[7]
Universal Canadian Resource Fund
Universal European Opportunities Fund[2]
Universal Far East Fund[3]
Universal Future Fund
Universal Growth Fund
Universal International Stock Fund[2]
Universal Japan Fund[3]
Universal Precious Metals Fund
Universal U.S. Emerging Growth Fund[1]
Universal U.S. Money Market Fund
Universal World Asset Allocation Fund[4]
Universal World Balanced RRSP Fund[1]
Universal World Emerging Growth Fund[2]
Universal World Growth RRSP Fund[1]
Universal World High Yield Fund[1]
Universal World Income RRSP Fund[1]
Universal World Real Estate Fund[2]
Universal World Science and Technology Fund[1,2 & 5]
Universal World Tactical Bond Fund[4]
Universal World Value Fund[1]

UNITED STATES

IVY FUNDS

Ivy Asia Pacific Fund
Ivy Bond Fund
Ivy Canada Fund[5]
Ivy China Region Fund
Ivy Developing Nations Fund
Ivy Global Fund
Ivy Global Natural Resources Fund[5]
Ivy Global Science & Technology Fund
Ivy Growth Fund
Ivy Growth with Income Fund
Ivy International Fund[6]
Ivy International Fund II
Ivy International Small Companies Fund
Ivy Money Market Fund
Ivy Pan-Europe Fund
Ivy South America Fund
Ivy U.S. Emerging Growth Fund

Portfolio management sub-advisors and Keystone partners

1. Mackenzie Investment Management Inc., *Boca Raton, Florida, U.S.A.*
2. Henderson Investors Limited, *London, England.*
3. Thornton Investment Advisors Limited, *Hong Kong, China.*
4. Cursitor-Eaton Asset Management Company, *Paris, France.*
5. Mackenzie Financial Corporation, *Toronto, Canada.*
6. Northern Cross Investments Ltd., *Hamilton, Bermuda.*
7. Bluewater Investment Management Inc., *Toronto, Canada.*
8. AGF Funds Inc., *Toronto, Canada.*
9. BPI Capital Management Corporation, *Toronto, Canada.*
10. Beutel, Goodman & Company Limited, *Toronto, Canada.*
11. Howson Tattersall Investment Counsel Ltd., *Toronto, Canada.*
12. Sceptre Investment Counsel Limited, *Toronto, Canada.*
13. Spectrum United Mutual Funds Inc., *Toronto, Canada.*

ANNUAL MEETING

The annual meeting of shareholders will be held on Friday, September 11, 1998, at 10:00 am at The Glenn Gould Theatre, 250 Front Street West, Toronto, Ontario.

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E-mail: invest@mackenziefinancial.com

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Mackenzie Financial Corporation
150 Bloor Street West
Suite M111
Toronto, Ontario
M5S 3B5

TRANSFER AGENT

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or toll-free throughout North America
at 1-800-387-0825
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E-mail: inquiries@cibcmellon.ca

LISTINGS

The Toronto Stock Exchange – MKF
Montreal Exchange – MKF
NASDAQ – MKFCF

With special thanks to the Publications Department of the Corporation for the graphic design and production of this Annual Report.

Mackenzie
Building Financial Independence